

GILAT SATELLITE NETWORKS LTD
Form 6-K
September 17, 2009

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR
15D-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF SEPTEMBER 2009

GILAT SATELLITE NETWORKS LTD.

(Name of Registrant)

21 YEGIA KAPAYIM, KIRYAT ARYE, PETAH TIKVAH, ISRAEL

(Address of Principal Executive Office)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT FILES OR WILL FILE ANNUAL
REPORTS UNDER COVER OF FORM 20-F OR FORM 40-F

FORM 20-F x FORM 40-F o

INDICATE BY CHECK MARK IF THE REGISTRANT IS SUBMITTING THE FORM 6-K IN
PAPER AS PERMITTED BY REGULATION S-T RULE 101(B)(1): o

INDICATE BY CHECK MARK IF THE REGISTRANT IS SUBMITTING THE FORM 6-K IN
PAPER AS PERMITTED BY REGULATION S-T RULE 101(B)(7): o

INDICATE BY CHECK MARK WHETHER BY FURNISHING THE INFORMATION CONTAINED IN
THIS FORM, THE REGISTRANT IS ALSO THEREBY FURNISHING THE INFORMATION TO THE
COMMISSION PURSUANT TO RULE 12G3-2(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934.

YES o NO x

IF "YES" IS MARKED, INDICATE BELOW THE FILE NUMBER ASSIGNED TO THE
REGISTRANT IN CONNECTION WITH RULE 12G3-2(B): 82-_____

THIS FORM 6-K IS BEING INCORPORATED BY REFERENCE INTO THE REGISTRANT'S FORM F-3
REGISTRATION STATEMENT FILE NO. 333-160683 AND FORM S-8 REGISTRATION STATEMENTS
FILE NOS. 333- 158476, 333-96630, 333-132649, 333-123410, 333-113932, 333-08826, 333-10092, 333-12466
and 333-12988.

GILAT SATELLITE NETWORKS LTD.

6-K Items

1. Condensed Interim Consolidated Financial Statements of Gilat Satellite Networks Ltd. and its subsidiaries as of June 30, 2009, Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2009.

ITEM 1

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2009
IN U.S. DOLLARS
INDEX

| | Page |
|---|------------|
| <u>Condensed Interim Consolidated Balance Sheets</u> | F-2 - F-3 |
| <u>Condensed Interim Consolidated Statements of Operations</u> | F-4 |
| <u>Condensed Interim Consolidated Statements of Changes in Shareholders' Equity</u> | F-5 |
| <u>Condensed Interim Consolidated Statements of Cash Flows</u> | F-6 - F-7 |
| <u>Notes to Condensed Interim Consolidated Financial Statements</u> | F-8 - F-16 |

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | June 30, 2009 | December 31, 2008 |
|---|------------------|----------------------|
| | Unaudited | See Note 3 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 76,880 | \$ 73,916 |
| Short-term bank deposits and held-to-maturity marketable securities | 64,174 | 63,033 |
| Short-term restricted cash | 8,473 | 8,581 |
| Restricted cash held by trustees | 13,172 | 24,169 |
| Trade receivables, net | 50,742 | 59,038 |
| Inventories | 15,910 | 20,719 |
| Other current assets | 19,152 | 22,036 |
| | 248,503 | 271,492 |
| <u>Total</u> current assets | | |

LONG-TERM ASSETS:

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| | June 30, 2009 | December 31, 2008 |
|---|-------------------|----------------------|
| Severance pay funds | 10,253 | 11,085 |
| Long-term restricted cash | 4,891 | 5,692 |
| Long-term trade receivables, receivables in respect of capital leases and other receivables | 3,157 | 8,937 |
| Total long-term assets | 18,301 | 25,714 |
| PROPERTY AND EQUIPMENT, NET | 103,991 | 109,369 |
| INTANGIBLE ASSETS AND DEFERRED CHARGES, NET | 3,442 | 4,064 |
| Total assets | \$ 374,237 | \$ 410,639 |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

F - 2

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

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

| | June 30, 2009 | December 31, 2008 |
|---|------------------|----------------------|
| | Unaudited | See Note 3 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term bank credit | \$ 6,500 | \$ 6,500 |
| Current maturities of long-term loans | 4,362 | 4,346 |
| Trade payables | 10,012 | 23,317 |
| Accrued expenses | 22,414 | 25,761 |
| Short-term advances from customer, held by trustees | 13,206 | 24,169 |
| Other current liabilities | 29,604 | 34,593 |
| Total current liabilities | 86,098 | 118,686 |
| LONG-TERM LIABILITIES: | | |
| Long-term loans, net of current maturities | 13,901 | 14,003 |
| Accrued severance pay | 10,971 | 12,297 |
| Accrued interest related to restructured debt | 1,506 | 1,838 |
| Convertible subordinated notes | 16,249 | 16,315 |

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| | June 30, 2009 | December 31, 2008 |
|---|------------------|----------------------|
| Other long-term liabilities | 16,781 | 17,276 |
| <u>Total</u> long-term liabilities | 59,408 | 61,729 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Share capital - | | |
| Ordinary shares of NIS 0.2 par value: Authorized - 60,000,000 shares as of June 30, 2009 and December 31, 2008; Issued and outstanding - 40,161,017 and 40,048,591 shares as of June 30, 2009 and December 31, 2008, respectively | | |
| | 1,826 | 1,821 |
| Additional paid-in capital | 862,840 | 862,390 |
| Accumulated other comprehensive income | 1,123 | 2,106 |
| Accumulated deficit | (637,058) | (636,093) |
| <u>Total</u> shareholders' equity | 228,731 | 230,224 |
| <u>Total</u> liabilities and shareholders' equity | \$ 374,237 | \$ 410,639 |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

F - 3

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

| | Six months ended June 30, | |
|-------------------------|------------------------------|-----------|
| | 2009 | 2008 |
| | Unaudited | Unaudited |
| Revenue: | | |
| Products | \$ 50,228 | \$ 80,533 |
| Services | 66,601 | 55,597 |
| Total revenue | 116,829 | 136,130 |
| Cost of revenue: | | |
| Products | 31,619 | 41,205 |
| Services | 50,232 | 48,635 |

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| | Six months ended June 30, | |
|--|------------------------------|------------|
| | _____ | _____ |
| Total cost of revenue | 81,851 | 89,840 |
| Gross profit | 34,978 | 46,290 |
| Operating expenses: | | |
| Research and development costs, net | 6,910 | 8,158 |
| Selling and marketing expenses | 14,774 | 17,840 |
| General and administrative expenses | 13,736 | 15,597 |
| Impairment of long-lived assets and other charges | - | - |
| Operating income (loss) | (442) | 4,695 |
| Financial income (expenses), net | (227) | 1,684 |
| Expenses related to aborted merger transaction | - | (933) |
| Other income | 199 | 1,182 |
| Income (loss) before taxes on income | (470) | 6,628 |
| Taxes on income | 495 | 748 |
| Net income (loss) | \$ (965) | \$ 5,880 |
| Net earnings (loss) per share: | | |
| Basic | \$ (0.02) | \$ 0.15 |
| Diluted | \$ (0.02) | \$ 0.14 |
| Weighted average number of shares used in computing net earnings (loss) per share: | | |
| Basic | 40,101,637 | 39,783,072 |
| Diluted | 40,101,637 | 42,292,921 |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

F - 4

**GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

U.S. dollars in thousands (except share data)

| | Number of Ordinary shares | Share capital | Additional paid-in capital | Accumulated other comprehensive | Accumulated deficit | Total comprehensive income (loss) | Total shareholders' equity |
|--|---------------------------------|------------------|----------------------------------|---------------------------------------|------------------------|---|----------------------------------|
|--|---------------------------------|------------------|----------------------------------|---------------------------------------|------------------------|---|----------------------------------|

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| | (in thousands) | income (loss) **) | | | | | |
|---|-------------------|----------------------|------------|----------|--------------|-------------------|------------|
| Balance as of December 31, 2007 | 39,612 | \$ 1,796 | \$ 859,207 | \$ 1,776 | \$ (634,969) | \$ - | \$ 227,810 |
| Exercise of stock options | 437 | 25 | 2,491 | - | - | - | 2,516 |
| Stock-based compensation related to employees stock options | - | - | 692 | - | - | - | 692 |
| Comprehensive loss: | | | | | | | |
| Foreign currency translation adjustments | - | - | - | (766) | - | \$ (766) | (766) |
| Unrealized gain on financial instruments, net | - | - | - | 1,096 | - | 1,096 | 1,096 |
| Net loss | - | - | - | - | (1,124) | (1,124) | (1,124) |
| Total comprehensive loss | | | | | | \$ (794) | |
| Balance as of December 31, 2008 | 40,049 | 1,821 | 862,390 | 2,106 | (636,093) | | 230,224 |
| Exercise of stock options | 112 | 5 | 1 | - | - | - | 6 |
| Stock-based compensation related to employees stock options | - | - | 449 | - | - | - | 449 |
| Conversion of convertible subordinated notes | *) - | *) - | - | - | - | - | *) - |
| Comprehensive loss: | | | | | | | |
| Foreign currency translation adjustments | - | - | - | 57 | - | 57 | 57 |
| Changes in unrealized gain on financial instruments, net | - | - | - | (1,040) | - | (1,040) | (1,040) |
| Net loss | - | - | - | - | (965) | (965) | (965) |
| Total comprehensive loss | | | | | | \$ (1,948) | |
| Balance as of June 30, 2009 (unaudited) | 40,161 | \$ 1,826 | \$ 862,840 | \$ 1,123 | \$ (637,058) | | \$ 228,731 |
| Balance as of December 31, 2007 | 39,612 | \$ 1,796 | \$ 859,207 | \$ 1,776 | \$ (634,969) | - | \$ 227,810 |
| Exercise of stock options | 318 | 18 | 1,847 | - | - | - | 1,865 |
| Stock-based compensation related to employees stock options | - | - | 380 | - | - | - | 380 |
| Comprehensive loss: | | | | | | | |
| Foreign currency translation adjustments | - | - | - | 612 | - | 612 | 612 |
| Unrealized gain on financial instruments, net | - | - | - | 1,170 | - | 1,170 | 1,170 |
| Net income | - | - | - | - | 5,880 | 5,880 | 5,880 |
| Total comprehensive income | | | | | | \$ 7,662 | |
| Balance as of June 30, 2008 (unaudited) | 39,930 | \$ 1,814 | \$ 861,434 | \$ 3,558 | \$ (629,089) | | \$ 237,717 |

*) Represents an amount of less than one thousand dollars.

***) Represents adjustments in respect of foreign currency translation and unrealized gain on financial instruments, net. Balance of accumulated other comprehensive income (loss) as of June 30, 2009 and 2008 and as of December 31, 2008, included foreign currency translation adjustments in the amount of \$ 1,067, \$ 1,170 and \$ 1,010, respectively, and unrealized gain on financial instruments, net, in the amount of \$ 56, \$ 2,388 and, \$ 1,096, respectively.

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The accompanying notes are an integral part of the condensed interim consolidated financial statements.

F - 5

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Six months ended June 30, | |
|---|------------------------------|-----------------|
| | 2009 | 2008 |
| | Unaudited | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (965) | \$ 5,880 |
| Adjustments required to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 7,259 | 6,292 |
| Gain from early redemption of convertible loan | (22) | - |
| Gain from sale of an investment accounted for at cost | (199) | - |
| Stock based compensation related to employees | 449 | 380 |
| Accrued severance pay, net | (494) | 216 |
| Accrued interest and exchange rate differences on short and long-term restricted cash, net | 155 | (496) |
| Accrued interest and exchange rate differences on held-to-maturity marketable securities, net | (277) | (1,635) |
| Exchange rate differences on long-term loans | 81 | 504 |
| Exchange rate differences on loans to employees | - | 20 |
| Capital loss from disposal of property and equipment | 64 | 51 |
| Deferred income taxes | 215 | (226) |
| Decrease (increase) in trade receivables, net | 8,835 | (14,035) |
| Decrease (increase) in other assets (including short-term, long-term and deferred charges) | 7,082 | (4,218) |
| Decrease (increase) in inventories | 6,152 | (1,255) |
| Increase (decrease) in trade payables | (13,663) | 1,184 |
| Increase (decrease) in accrued expenses | (3,359) | (596) |
| Increase (decrease) in advances from customer, held by trustees, net | (10,963) | 496 |
| Decrease in other accounts payable and other long-term liabilities | (6,915) | (13,542) |
| Net cash used in operating activities | (6,565) | (20,980) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (1,873) | (4,325) |
| Proceeds from sale of an investment accounted for at cost | 199 | - |
| Other investments | - | (195) |
| Purchase of held-to-maturity marketable securities | (74,077) | (80,559) |
| Proceeds from held-to-maturity marketable securities | 73,212 | 31,072 |
| Proceeds from sale of property and equipment | - | 426 |
| Loans to employees, net | 12 | 2,778 |
| Proceeds from restricted cash held by trustees | 10,848 | - |
| Investment in restricted cash (including long-term) | (87) | (597) |
| Proceeds from restricted cash (including long-term) | 998 | 171 |

| | Six months ended June 30, | |
|---|------------------------------|-------------|
| | 2009 | 2008 |
| Net cash provided by (used in) investing activities | \$ 9,232 | \$ (51,229) |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

F - 6

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Six months ended June 30, | |
|--|------------------------------|----------|
| | 2009 | 2008 |
| | Unaudited | |
| <u>Cash flows from financing activities:</u> | | |
| Exercise of stock options | \$ 6 | \$ 1,866 |
| Early redemption of convertible loan | (45) | - |
| Short-term bank credit, net | - | (323) |
| Repayments of long-term loans | (167) | (192) |
| Net cash provided by (used in) financing activities | (206) | 1,351 |
| Effect of exchange rate changes on cash and cash equivalents | 503 | 743 |
| Increase (decrease) in cash and cash equivalents | 2,964 | (70,115) |
| Cash and cash equivalents at the beginning of the period | 73,916 | 122,807 |
| Cash and cash equivalents at the end of the period | 76,880 | 52,692 |
| <u>Supplementary cash flow activities:</u> | | |
| (1) Cash paid during the year for: | | |
| Interest | \$ 814 | \$ 1,133 |
| Income taxes | \$ 739 | \$ 663 |
| (2) Non-cash transactions- | | |

| | Six months ended June 30, | |
|---|------------------------------|-------|
| | \$ | \$ |
| Classification between property and equipment and inventories - net | (1,176) | 2,745 |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

F - 7

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL

a. Organization:

Gilat Satellite Networks Ltd. (the Company or Gilat) and its subsidiaries (the Group) is a global provider of Internet Protocol, or IP, based digital satellite communication and networking products and services. The Company designs, produces and markets 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 combine a large central earth station, called a hub, with multiple remote sites (ranging from tens to thousands of sites), which communicate via satellite.

The Company currently operates three complementary, vertically integrated operational segments:

- Gilat Network Systems (GNS) provides VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide.
- Spacenet Inc. (Spacenet) provides satellite network services to enterprises, small office/home office (SOHOs) and residential customers in the U.S.
- Spacenet Rural Communications (SRC) provides telephony, Internet and data services primarily for rural communities in emerging markets in Latin America under projects that are subsidized by government entities.

Gilat was incorporated in Israel in 1987 and launched its first generation VSAT in 1989.

b. Aborted Agreement and Plan of Merger (the Agreement and Plan of Merger):

On March 31, 2008, the Company announced the signing of an Agreement and Plan of Merger (the Agreement) to be acquired for an aggregate value of \$ 475,000 in an all cash transaction by a consortium of private equity investors. The closing of the transaction was subject to shareholders' approval, certain regulatory approvals and other customary closing conditions.

On August 5, 2008, the Company informed the consortium that all conditions precedent to closing had been met.

On August 29, 2008, the Company notified the consortium that it was terminating the Agreement citing the consortium's intentional breach of the Agreement and failure to close the merger transaction within the extended time period established to complete the transaction.

The Agreement provides for a termination fee in the amount of approximately \$ 47,500 payable to the Company, and the Company has sued the consortium members for this amount.

F - 8

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

- a. The significant accounting policies applied in the financial statements of the Company as of December 31, 2008, are applied consistently in these financial statements except for the adoption of FASB Staff Position (FSP) FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (see 2b below).
- b. In April 2009, the Financial Accounting Standards Board (FASB) issued FSP FAS 15-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP is intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary impairment event and to more effectively communicate when an other-than-temporary impairment event has occurred. The FSP applies to fixed maturity securities only and requires separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell the security and it is more likely than not that an entity will not have to sell the security before recovery of its cost basis, it must recognize the credit component of an other-than-temporary impairment in earnings and the remaining portion in other comprehensive income. Upon adoption of this FSP, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income. This FSP, which is effective for interim and annual reporting periods ending after June 15, 2009 had no material impact on the Company s financial position, results of operations or cash flows.

c. Fair value of financial instruments:

The following methods and assumptions were used by the Group in estimating their fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, short-term restricted cash, restricted cash held by trustees, trade receivables, short-term bank credit and trade payables approximate their fair value due to the short-term maturity of such instruments.

The carrying amounts of the Group s long-term borrowing arrangements, long-term trade receivables and long-term restricted cash approximate their fair value. The fair value was estimated using discounted cash flow analysis, based on the Group s incremental borrowing rates for similar borrowing or investing arrangements.

The fair value of the convertible subordinated notes was determined based on management estimates that incorporate the estimated market participant expectations of future cash flow and market value (on the over the counter market). As of June 30, 2009 and December 31, 2008, the Company s convertible subordinated notes estimated fair value was \$13,820 and \$13,317, respectively.

d. Impact of recently issued accounting standards:

In May 2009, the FASB issued Statement No. 165, Subsequent Events (SFAS 165). SFAS 165 should not result in significant changes in the subsequent events that an entity reports. Rather, SFAS 165 introduces the concept of financial statements being available to be issued. Financial statements are considered available to be issued when they are complete in a form and format that complies with generally accepted accounting principles (GAAP) and all approvals necessary for issuance have been obtained. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS 165 had no material impact on the Company s financial position, results of operations or cash flows.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In June 2009, the FASB issued Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 seeks to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS 166 is applicable for annual periods after November 15, 2009 and interim periods therein and thereafter. The Company's management does not expect the adoption of SFAS 166 to have a material impact on its financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 seeks to improve financial reporting by enterprises involved with variable interest entities. SFAS 167 is applicable for annual periods after November 15, 2009 and interim periods therein and thereafter. The Company's management is in the process of determining the impact, if any, that SFAS 167 will have on its consolidated financial statements.

In June 2009, The FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS 168) which establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP (other than guidance issued by the SEC) to be used in the preparation of financial statements. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and the impact on the Company's consolidated financial statements will be disclosure-only in nature.

NOTE 3: UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

The condensed consolidated balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

The unaudited condensed interim financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2008 included in the Company's Annual Report on Form 20-F, filed with the Securities Exchange Commission on April 7, 2009.

F - 10

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: SHORT-TERM BANK DEPOSITS AND HELD-TO-MATURITY MARKETABLE SECURITIES

a. The Company's investments in short term bank deposits and marketable debt securities are comprised of the following:

| | <u>June 30,</u> | <u>December 31,</u> |
|--|-----------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Short-term bank deposits | \$ 13,265 | \$ - |
| Held to maturity marketable securities | 50,909 | 63,274 |

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| | June 30, | December 31, |
|--|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| | \$ 64,174 | \$ 63,274 |
| | <u> </u> | <u> </u> |

- b. The Company invests in marketable debt securities, which are classified as held-to-maturity investments and included as part of short-term bank deposits and held-to-maturity marketable securities balance. The following is a summary of the Company's marketable debt securities:

| | June 30, 2009 | | | December 31, 2008 | | |
|-------------------------------|-------------------|--------------------|-------------------|----------------------|-----------------------|-------------------|
| | Amortized cost | Unrealized gain | Market value | Amortized cost *) | Unrealized gain *) | Market value |
| | <u>Unaudited</u> | | | | | |
| <u>Held-to-maturity:</u> | | | | | | |
| Israeli Government debentures | \$ 599 | \$ 1 | \$ 600 | \$ 4,517 | \$ 6 | \$ 4,523 |
| U.S. Government debentures | 50,310 | 10 | 50,320 | 58,757 | 38 | 58,795 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 50,909 | \$ 11 | \$ 50,920 | \$ 63,274 | \$ 44 | \$ 63,318 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

- *) As of December 31, 2008, Israeli and U.S Government debentures include accrued interest to be received, disclosed as part of other current assets, in the amount of approximately \$ 2 and \$ 239 respectively. There are no unrealized losses with respect to these debentures as of December 31, 2008.

NOTE 5: INVENTORIES

- a. Inventories are comprised of the following:

| | June 30, 2009 | December 31, 2008 |
|-----------------------------------|-------------------|----------------------|
| | <u> </u> | <u> </u> |
| | <u>Unaudited</u> | |
| Raw materials, parts and supplies | \$ 1,020 | \$ 1,348 |
| Work in progress | 686 | 950 |
| Finished products | 14,204 | 18,421 |
| | <u> </u> | <u> </u> |
| | \$ 15,910 | \$ 20,719 |
| | <u> </u> | <u> </u> |

- b. Inventory write-offs for the six months ended June 30, 2009 and 2008 totaled \$ 1,022 and \$ 367, respectively.

NOTE 6: CONTINGENCIES

- a. In September 2003, Nova Mobilcom S.A., or Mobilcom, filed a lawsuit against Gilat do Brasil for specific performance of a Memorandum of Understanding which provided for the sale of Gilat do Brasil to Mobilcom, and specifically the GESAC project, a government education project awarded to Gilat do Brazil. Gilat do Brasil does not believe that this claim has any merit and is vigorously defending itself against the claims presented.
- b. In 2003, the Brazilian tax authority has filed a claim against a subsidiary of Spacenet in Brazil, for alleged taxes due of approximately \$4,000. In January 2004, the subsidiary received notice of an administrative ruling reducing the amount of the claim, and the subsidiary filed an appeal of such ruling. In December 2005, this appeal was denied. In September 2006 the subsidiary of Spacenet filed an annulment action aiming seeking judicial cancellation of the claim. On May, 2009 the subsidiary received notice of the court's first level decision which cancelled a significant part of the claim. Under this new decision, the subsidiary faces a tax liability of approximately \$1,200. The decision has been appealed by both the subsidiary and the state tax authorities and is pending review by the Court of Appeal in Brazil. The subsidiary denies such claims and has filed a petition known as a *Ação Anulatória* in the State Courts of the State of São Paulo, Brazil.
- c. In October 2008 a lawsuit and a motion for its approval as a class action proceeding was filed in the District Court of Jerusalem by eight individuals and Israeli companies against the Company, all of its directors and its 20% shareholder, York Capital Management. The request for approval as a class action proceeding was dismissed on July 12, 2009.
- d. The Company has certain tax exposures in some of the jurisdictions in which it conducts business. Specifically, in certain jurisdictions in the United States and in Latin America the Company is in the midst of different stages of audits and has received certain tax assessments. The tax authorities in these and in other jurisdictions in which the Company operates as well as the Israeli Tax Authorities may raise additional claims, which might result in increased exposures and ultimately, payment of additional taxes.

The exposures and provisions related to income taxes have been assessed and provided for in accordance with FIN 48. Liabilities related to legal proceedings, demands and claims and other taxes are recorded in accordance with SFAS 5, when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. The Company's management, based on its legal counsel's opinion, believes that it has provided an adequate accrual to cover the costs to resolve the aforementioned legal proceedings, demands and claims.

- e. The Company has accrued, \$ 15,472 and \$ 15,291 as of June 30, 2009 and December 31, 2008, respectively, for the expected implications of such legal and tax contingencies. These accruals are comprised of \$ 14,797 and \$ 14,295 of tax related accruals as of June 30, 2009 and December 31, 2008, respectively, and \$ 675 and \$ 996 of legal and other accruals as of June 30, 2009 and December 31, 2008, respectively. The accruals related to tax contingencies that have been assessed by the Company's management based on the advice of outside legal and tax advisers. The total estimated exposure for the aforementioned tax related accruals is \$ 27,458 and \$ 23,284 as of June 30, 2009 and December 31, 2008, respectively. The estimated exposure for legal and other related accruals is \$ 2,216 and \$ 1,599 as of June 30, 2009 and December 31, 2008, respectively.

The tax accruals include various tax matters such as taxes on income, property taxes, sales and use tax and value added tax, that are in different stages of audits, for which tax assessments have been received, or various tax exposures in which the Company has assessed the exposure and determined that an accrual is necessary. The accruals related to legal contingencies have been assessed by the Company's management based on the advice of independent legal advisers and are comprised of matters for which legal proceedings have been initiated against the Company.

F - 12

**GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 7: NET EARNINGS (LOSS) PER SHARE

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Basic net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each period. Diluted net earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each period, plus dilutive potential ordinary shares considered outstanding during the period, in accordance with SFAS No. 128, Earnings per Share. The total weighted average number of shares related to the outstanding options and RSUs excluded from the calculations of diluted net earnings (loss) per share, as they would have been anti-dilutive for all periods presented, was 5,710,374 and 250,876 for the six months ended June 30, 2009 and 2008, respectively.

The following table sets forth the computation of basic and diluted net earnings (loss) per share:

1. Numerator:

| | Six months ended June 30, | |
|---|------------------------------|----------|
| | 2009 | 2008 |
| | Unaudited | |
| Numerator for basic and diluted net earnings (loss) per share - Net income (loss) available to Ordinary shareholders | \$ (965) | \$ 5,880 |

2. Denominator (in thousands):

| | | |
|---|--------|--------|
| Denominator for basic net earnings (loss) per share - Weighted average number of shares | 40,102 | 39,783 |
| Add - employee stock options, RSUs and convertible notes | * - | 2,510 |
| Denominator for diluted net earnings (loss) per share - adjusted weighted average shares assuming exercise of options | 40,102 | 42,293 |

* Anti-dilutive

NOTE 8: HEDGING INSTRUMENTS

To protect against changes in value of forecasted foreign currency cash flows that are denominated in NIS, the Company has entered into foreign currency forward contracts and put option contracts. These contracts are designated as cash flows hedges, as defined by Financial Accounting Standards Board Statement No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended, and are considered highly effective as hedges of these expenses.

During the six months ended June 30, 2009 and 2008, the Company recognized net income (loss) of \$ (645) and \$ 476, respectively, related to the effective portion of its hedging instruments. The effective portion of the hedged instruments has been included as an offset of (addition to) payroll expenses and other operating expenses in the statement of operations. The ineffective portion of the hedged instrument amounted to \$ 75 and zero during the six months ended June 30, 2009 and 2008, respectively and has been recorded as a financial loss.

The fair value of the hedging instruments as of June 30, 2009 constituted an asset of approximately \$ 56, included as part of other current assets. The term of all of these instruments as of June 30, 2009 is less than one year.

As of June 30, 2009, the Company expected to reclassify \$ 56 of net gain on derivative instruments from accumulated other comprehensive income to earnings during the following six months.

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As of June 30, 2009, approximately \$ 19,000 related to payments that are dominated in NIS are hedged by the Company against changes in value of forecasted foreign currency cash flows.

F - 13

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: CUSTOMERS, GEOGRAPHIC AND SEGMENTS INFORMATION

The Company applies SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information (SFAS 131).

a. Revenues by geographic areas:

Following is a summary of revenues by geographic areas. Revenues are attributed to geographic areas, based on the location of the end customers, and in accordance with SFAS 131, including all countries in which revenues exceeded 10% of total revenues in any of the reported periods:

| | Six months ended June 30, | |
|--|------------------------------|------------|
| | 2009 | 2008 |
| | Unaudited | |
| United States | \$ 43,016 | \$ 50,522 |
| South America and Central America (without Colombia) | 30,864 | 27,935 |
| Asia | 18,533 | 21,435 |
| Colombia | 14,449 | 5,411 |
| Africa | 6,583 | 25,583 |
| Europe | 3,384 | 5,244 |
| | \$ 116,829 | \$ 136,130 |

b. During the six months ended June 30, 2009 and 2008, the Company did not have any specific customers with revenues exceeding 10% of its total revenues.

c. The Company's long-lived assets are located as follows:

| | June 30, 2009 | December 31, 2008 |
|---------------|------------------|----------------------|
| | Unaudited | |
| Israel | \$ 77,237 | \$ 78,891 |
| United States | 14,061 | 15,588 |
| Latin America | 8,610 | 11,255 |
| Europe | 7,152 | 7,241 |
| Other | 373 | 458 |

| | June 30, 2009 | December 31, 2008 |
|--|------------------|----------------------|
| | \$ 107,433 | \$ 113,433 |

d. Information on operating segments:

1) General:

The Company's three reportable segments are differentiated by whether the nature of the transaction is dominated by an equipment sale (a Gilat Network Systems transaction), by the operation of an enterprise or consumer network (a Spacenet Inc. transaction) or by the operation of a rural network in Latin America (a Spacenet Rural Communications transaction).

F - 14

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: CUSTOMERS, GEOGRAPHIC AND SEGMENTS INFORMATION (Cont.)

2) Information on the reportable segments:

- a) The measurement of the reportable operating segments is based on the same accounting principles applied in these financial statements.
- b) When reported by segment, the results of Spacenet Inc. and Spacenet Rural Communication are presented based upon transfer prices. The consolidation column reflects consolidation adjustment such as the elimination of intercompany revenues, recognition or elimination of intercompany profits.
- c) Financial data relating to reportable operating segments:

| | Six months ended June 30, 2009 (unaudited) | | | | |
|--------------------------------------|--|------------------|------------------|-------------------|-------------------|
| | Spacenet Inc | Spacenet Rural | GNS | Consolidation | Total |
| Revenues: | | | | | |
| External revenues | \$ 42,866 | \$ 21,195 | \$ 52,768 | \$ - | \$ 116,829 |
| Internal revenues | - | - | 6,107 | (6,107) | - |
| | <u>\$ 42,866</u> | <u>\$ 21,195</u> | <u>\$ 58,875</u> | <u>\$ (6,107)</u> | <u>\$ 116,829</u> |
| Financial income (expenses), net | <u>\$ 163</u> | <u>\$ 3</u> | <u>\$ (393)</u> | <u>\$ -</u> | <u>\$ (227)</u> |
| Income (loss) before taxes on income | \$ (2,352) | \$ 4,033 | \$ (2,523) | \$ 372 | \$ (470) |

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Six months ended June 30, 2009 (unaudited)

| | | | | | |
|-----------------|------|-------|--------|------|--------|
| Taxes on income | \$ - | \$ 38 | \$ 457 | \$ - | \$ 495 |
|-----------------|------|-------|--------|------|--------|

Six months ended June 30, 2008 (unaudited)

| | Spacenet Inc | Spacenet Rural | GNS | Consolidation | Total |
|--------------------------------------|--------------|----------------|-----------|---------------|------------|
| Revenues: | | | | | |
| External revenues | \$ 50,305 | \$ 12,584 | \$ 73,241 | \$ - | \$ 136,130 |
| Internal revenues | - | - | 12,520 | (12,520) | - |
| | \$ 50,305 | \$ 12,584 | \$ 85,761 | \$ (12,520) | \$ 136,130 |
| Financial income (expenses), net | \$ 133 | \$ (388) | \$ 1,939 | \$ - | \$ 1,684 |
| Income (loss) before taxes on income | \$ 621 | \$ (4,862) | \$ 9,824 | \$ 1,045 | \$ 6,628 |
| Taxes on income | \$ - | \$ 234 | \$ 514 | \$ - | \$ 748 |

F - 15

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10: INCOME TAXES

Taxes on income for the six month period ended June 30, 2009 and June 30, 2008 derived mainly from current year taxes related to several profitable entities. Main reconciling items between the statutory tax rate of the Company and the effective tax rate are carry forward tax losses in other entities in the group, for which a full valuation allowance was provided.

NOTE 11: SUBSEQUENT EVENTS

The Company evaluated subsequent events through September 17, 2009, the date these financial statements were filed with the Securities and Exchange Commission under Form 6-K.

F - 16

SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated statement of operations data for the six month periods ended June 30, 2009 and 2008 and the consolidated balance sheet data at June 30, 2009 and 2008 are derived from unaudited condensed interim consolidated financial statements which, in our opinion, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operation for such periods. The results of operations for the six months ended June 30, 2009 are not necessarily indicative of results to be expected for any future period. The selected consolidated financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements with respect to the three years ended December 31, 2008 and as at December 31, 2008 and 2007 included in our Annual Audited Report on Form 20-F for the year ended December 31, 2008.

| | Year ended December 31, | | Six month ended June 30, | |
|---|-------------------------|-----------------|--------------------------|-----------------|
| | 2008 | 2007 | 2009 | 2008 |
| U.S. dollars in thousands (except share and per share data) | | | | |
| Statement of Operations Data: | | | | |
| Revenues: | | | | |
| Products | \$ 150,351 | \$ 156,798 | \$ 50,228 | \$ 80,533 |
| Services | 117,175 | 125,821 | 66,601 | 55,597 |
| | <u>267,526</u> | <u>282,619</u> | <u>116,829</u> | <u>136,130</u> |
| Cost of revenues: | | | | |
| Products | 80,424 | 82,822 | 31,619 | 41,205 |
| Services | 101,150 | 97,952 | 50,232 | 48,635 |
| | <u>181,574</u> | <u>180,774</u> | <u>81,851</u> | <u>89,840</u> |
| Gross profit | 85,952 | 101,845 | 34,978 | 46,290 |
| Operating expenses: | | | | |
| Research and development expenses, net | 16,942 | 15,030 | 6,910 | 8,158 |
| Selling and marketing expenses | 35,783 | 38,374 | 14,774 | 17,840 |
| General and administrative expenses | 29,819 | 31,052 | 13,736 | 15,597 |
| Impairment of long lived assets and other charges | 5,020 | 12,218 | - | - |
| | <u>(61,564)</u> | <u>(66,674)</u> | <u>(35,420)</u> | <u>(41,595)</u> |
| Operating income (loss) | (1,612) | 5,171 | (442) | 4,695 |
| Financial income (expenses), net | 1,300 | 5,998 | (227) | 1,684 |
| Expenses related to aborted merger transaction | (2,350) | - | - | (933) |
| Other income (expense) | 2,983 | (116) | 199 | 1,182 |
| | <u>2,911</u> | <u>5,772</u> | <u>(228)</u> | <u>2,928</u> |
| Income (loss) before taxes on income | 321 | 11,053 | (470) | 6,628 |
| Taxes on income | 1,445 | 963 | 495 | 748 |
| | <u>(1,124)</u> | <u>10,090</u> | <u>(965)</u> | <u>5,880</u> |
| Net income (loss) | (1,124) | 10,090 | (965) | 5,880 |
| Net earnings (loss) per share: | | | | |
| Basic | (0.03) | \$ 0.26 | (0.02) | 0.15 |
| Diluted | (0.03) | \$ 0.24 | (0.02) | 0.14 |
| Weighted average number of shares used in computing net earnings (loss) per share: | | | | |
| Basic | 39,901 | 39,141 | 40,102 | 39,783 |

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| | Year ended December 31, | | Six month ended June 30, | |
|---------|-------------------------|--------|--------------------------|--------|
| | | | | |
| Diluted | 39,901 | 41,576 | 40,102 | 42,293 |

| | December 31, | | June 30, | |
|---------------------------|--------------|------|----------|------|
| | 2008 | 2007 | 2009 | 2008 |
| U.S. dollars in thousands | | | | |

Balance Sheet Data:

| | | | | | | | | |
|---|----|---------|----|---------|----|---------|----|---------|
| Working capital | \$ | 152,806 | \$ | 151,367 | \$ | 162,405 | \$ | 151,785 |
| Total assets | | 410,639 | | 430,102 | | 374,237 | | 429,116 |
| Short-term bank credit and current maturities of long-term debt | | 10,846 | | 11,177 | | 10,862 | | 10,879 |
| Convertible subordinated notes | | 16,315 | | 16,315 | | 16,249 | | 16,315 |
| Other long-term liabilities | | 45,414 | | 61,130 | | 43,159 | | 55,321 |
| Shareholders' equity | \$ | 230,224 | \$ | 227,810 | \$ | 228,731 | \$ | 237,717 |

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

RESULTS OF OPERATIONS:

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Revenues. Revenues for the six months ended June 30, 2009 and 2008 for our three business segments were as follows:

| | Six months ended June 30, | | Percentage change | Six months ended June 30, | |
|-----------------|------------------------------|-----------|----------------------|------------------------------|-------|
| | 2009 | 2008 | | 2009 | 2008 |
| | U.S. dollars in thousands | | | Percentage of revenues | |
| GNS | | | | | |
| Equipment | \$ 47,868 | \$ 75,024 | (36.2)% | 41.0% | 55.1% |
| Services | 11,007 | 10,737 | 2.5% | 9.4% | 7.9% |
| | 58,875 | 85,761 | (31.3)% | 50.4% | 63.0% |
| Spacenet | | | | | |
| Equipment | 8,321 | 17,904 | (53.5)% | 7.1% | 13.2% |
| Services | 34,545 | 32,401 | 6.6% | 29.6% | 23.8% |
| | 42,866 | 50,305 | (14.8)% | 36.7% | 37.0% |

RESULTS OF OPERATIONS:

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| | Six months ended June 30, | | | Six months ended June 30, | |
|---------------------------------|------------------------------|-----------------|----------------|------------------------------|---------------|
| | 2009 | | | 2008 | |
| SRC | | | | | |
| Equipment | 68 | 76 | (10.5)% | 0.1% | 0.1% |
| Services | 21,127 | 12,508 | 68.9% | 18.1% | 9.1% |
| | <u>21,195</u> | <u>12,584</u> | <u>68.4%</u> | <u>18.2%</u> | <u>9.2%</u> |
| Intercompany Adjustments | | | | | |
| Equipment | (6,029) | (12,471) | (51.7)% | 5.2% | 9.2% |
| Services | (78) | (49) | 66.0% | (0.1)% | 0.0% |
| | <u>(6,107)</u> | <u>(12,520)</u> | <u>(51.2)%</u> | <u>(5.3)%</u> | <u>9.2%</u> |
| Total | | | | | |
| Equipment | 50,228 | 80,533 | (37.6)% | 43.0% | 59.2% |
| Services | 66,601 | 55,597 | 19.8% | 57.0% | 40.8% |
| | <u>116,829</u> | <u>136,130</u> | <u>(14.2)%</u> | <u>100.0%</u> | <u>100.0%</u> |

Revenues for the six months ended June 30, 2009 decreased by 14.2% compared to the same period in 2008. Revenues for the six months ended June 30, 2009 were derived 43% from equipment and 57% from services. In the same period of 2008, our revenues were derived 59.2% from equipment and 40.8% from services. The decrease in our revenues is mainly related to GNS and Spacenet. The decrease in these business units was approximately \$26.9 million and \$7.4 million respectively. This decrease is attributed mainly to the world wide economic recession that led to more conservative spending in the telecom sector and longer sales cycles in the markets. The decrease in our equipment revenues was partly offset by the increase in revenues from our network operations in Colombia. During the six month period ended June 30, 2009, following the execution of new agreements with the Ministry of Communications in December 2008, we began to implement network upgrades. As a result of the above, we were able to release restricted cash of approximately \$10.8 million, which enabled us to recognize \$ 10.6 million in revenues for the six months ended June 30, 2009. Revenues in the second half of 2009 will continue to be dependent on the Company's ability to overcome the worldwide economic recession, the ability to generate sales in a difficult economic environment as well as the Company's ability to continue to perform under the new agreements and meet the indicators contained in the new agreements with the Ministry of Communications in Colombia.

Gross profit.

Our gross profit margin decreased to approximately 30% in the six month period ended June 30, 2009, from 34% in the same period of 2008. The decrease in our gross margin is primarily attributable to GNS, resulting from a decrease in revenues. In addition, during the six month period ended June 30, 2009, as a result of the decrease in revenues and the adjusted sales forecast, we recorded an excess inventory write off of approximately \$1.0 million compared to \$0.4 million in the comparable period in 2008. Our gross margin is affected by the regions in which we operate and the type of deals we consummate. In this period, we also continued to see some aggressive pricing activity in certain regions of the world which affected our gross margins. The decrease in our gross margin was offset by the increased revenues and improved margins from Colombia.

Research and Development Expenses.

Net research and development expenses decreased by approximately \$1.2 million in the six months ended June 30, 2009 compared to the same period in 2008. The decrease is a result of a decline in our gross R&D expenses, reflecting the effect of our cost cutting measures, mainly in salaries, which were taken at the beginning of 2009 and the positive effect of the devaluation of the Israeli shekel versus the dollar compared to 2008. In addition, during the six month period ended June 30, 2009, we had greater/additional R&D grants of approximately \$0.3 million, due to the initiation of a new project.

Selling and marketing expenses.

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Selling and marketing expenses decreased by approximately \$3.1 million in the six months ended June 30, 2009, compared to the same period in 2008. This decrease is primarily due to a decrease of approximately \$1.7 million in sales related expenses, as a result of our lower revenues. In addition, there was a decrease in employee related expenses as a result of the positive impact of the foreign exchange rate arising from the increase in the value of the U.S. Dollar versus the Israeli shekel and the cost cutting efforts we implemented at the beginning of 2009.

General and administrative expenses.

General and administrative expenses decreased by approximately \$1.9 million in the six month period ended June 30, 2009, compared to the same period in 2008. The decrease is primarily attributable to a reduction of approximately \$1 million in salary and other employee related expenses resulting from the positive impact of the foreign exchange rate arising from the increase in the value of the dollar versus the Israeli shekel and the cost cutting efforts we implemented at the beginning of 2009.

Financial income (expenses), net. In the six months ended June 30, 2009, we had financial expenses of approximately \$0.2 million compared to financial income of approximately \$1.7 million in the same period of 2008. The decrease in our financial income is primarily attributable to the significant decrease in interest income resulting from the low level of interest rates prevailing worldwide and the negative impact of the fluctuation of the dollar versus other currencies in the various locations in which we operate worldwide.

Expenses related to aborted merger transaction. During the first six months of 2008, we accrued approximately \$ 0.9 million of external expenses related to the aborted merger transaction. During 2009, these expenses primarily consist of legal expenses and are not considered to be material; as such they are included in our general and administrative expenses.

Other Income. During the six months ended June 30, 2008, we received a dividend of approximately \$1.2 million from a company in which we had invested, which investment we had previously written off. During the six months ended June 30, 2009, we received an additional \$0.2 million as a result of the partial sale of this investment.

Taxes on income. Taxes on income are dependent upon where our revenues are generated. Taxes on income in the six months ended June 30, 2009 were approximately \$0.5 million compared to approximately \$0.7 million in the same period of 2008. The slight decrease in taxes during the six months ended June 30, 2009 was not driven by 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 and), sale prices, and production costs, as well as 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 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 can not 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 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.

Liquidity and Capital Resources

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

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As of June 30, 2009, we had cash and cash equivalents of \$76.9 million, held to maturity marketable securities of \$64.2 million, short-term and long-term restricted cash of \$13.4 million, short-term restricted cash held in trustees' accounts of \$13.2 million and short-term bank credits of \$6.5 million. As of December 31, 2008, we had cash and cash equivalents of \$52.7 million, short-term bank deposits and held to maturity marketable securities of \$96.7 million, short-term and long-term restricted cash of \$13.8 million, short-term and long-term restricted cash held in trustees' accounts of \$24.5 million and short-term bank credits of \$5.5 million.

As of June 30, 2009, our accumulated debt was approximately \$34.5 million, comprised of long-term loans of \$18.3 million and convertible subordinated notes of approximately \$16.2 million.

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. We were in compliance with the terms of our credit agreements at June 30, 2009.

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

| | Six Months Ended June 30, | |
|--|---------------------------|-------------|
| | 2009 | 2008 |
| | US Dollars in thousands | |
| Net cash used in operating activities | \$ (6,565) | \$ (20,980) |
| Net cash provided by (used in) investing activities | 9,232 | (51,229) |
| Net cash provided by (used in) financing activities | (206) | 1,351 |
| Effect of exchange rate changes on cash and cash equivalents | 503 | 743 |
| | 2,964 | (70,115) |
| Net increase (decrease) in cash and cash equivalents | | |
| Cash and cash equivalents at beginning of the period | 73,916 | 122,807 |
| | \$ 76,880 | \$ 52,692 |
| Cash and cash equivalents at end of the period | | |

Our cash and cash equivalents increased by approximately \$3 million during the six months ended June 30, 2009 as a result of the following:

Operating activities. Cash used in operating activities was approximately \$6.6 million mainly due a decrease in trade payable, accrued expenses, advances from customers and other accounts payable and other long-term liabilities of approximately \$34.9 million. The above was offset by a decrease in inventories, trade receivable and other assets of approximately \$22 million and positive cash provided by other operating activity of \$6.3 million.

Investing activities. Cash provided by investing activities was approximately \$9.2 million, mainly from the release of approximately \$10.8 million of restricted cash held by trustees, from the release of other restricted cash of approximately \$1 million and proceeds from the sale of an investment previously written off of \$0.2 million. The above was offset by the purchase of property and equipment of approximately \$1.9 million and the purchase of held to maturity marketable securities, net of \$0.9 million.

Financing activities. Cash used in financing activities was approximately \$0.2 million, primarily from the repayment of our long term loan and from the early redemption of convertible subordinated notes.

Our cash and cash equivalents decreased by \$70.1 million during the six months ended June 30, 2008 as a result of the following:

Operating activities. Cash used in operating activities was approximately \$21 million mainly due a decrease in other accounts payable and other long term liabilities and an increase in trade receivable, inventory and other assets of \$33.1 million, offset by our positive net cash flow provided by other operating activities of \$12.1 million.

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Investing activities. Cash used in investing activities was approximately \$51.2 million, mainly from net investment in held to maturity marketable securities of approximately \$49.5 million, purchase of property and equipment of approximately \$4.3 million and net investment in restricted cash (including long term) and other investment of approximately \$0.6 million. This was offset by proceeds from loans to employees of approximately \$2.8 million, proceeds from sale of property and equipment and from restricted cash of approximately \$0.4 million.

Financing activities. Cash provided by financing activities was approximately \$1.4 million, primarily from proceeds of approximately \$1.9 million from the exercise of options, net of approximately \$0.3 million of short term bank credit and net of repayment of long term loans of approximately \$0.2 million.

SIGNATURES

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

GILAT SATELLITE NETWORKS LTD.
(Registrant)

By: /s/ Ari Krashin

Ari Krashin
Chief Financial Officer

Date: September 17, 2009
