GILAT SATELLITE NETWORKS LTD
Form 20-F
March 28, 2007

As filed with the Securities and Exchange Commission on March 28, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

or

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from __________ to __________

or

o **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)

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 Par Value	**NASDAQ Global Market**

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

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:

38,820,352 Ordinary Shares, NIS 0.20 par 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 o No x

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 o No x

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 x No o

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 o Accelerated filer x Non-accelerated filer o

Indicate by check mark which financial statement item the Registrant elected to follow:

Item 17 o Item 18 x

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 o No x

This report on Form 20-F is being incorporated by reference into our Registration Statements on Form S-8 (Registration Nos. 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 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 670,000 VSAT units to customers in over 85 countries on six continents since 1989. We have 16 sales and service 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 U.S. and certain countries in Latin America, we provide services directly to end-users in various market segments.

We currently operate three complementary, vertically-integrated business units: Gilat Network Systems, or GNS, a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide; Spacenet Inc. a provider of satellite network services to enterprises, small office/home office, or SOHOs, and residential customers in the U.S.; and Spacenet Rural Communications, or SRC, a provider of telephony, Internet and data services primarily for rural communities in emerging markets in Latin America under projects that are subsidized by government entities.

We were incorporated in Israel in 1987 and are subject to the laws of the State of Israel. Our corporate headquarters, executive offices and research and development, engineering and manufacturing facilities are located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 49130, Israel. Our telephone number is (972) 3-925-2000.

The name Gilat® and the names Connexstar , SkyAbis , SkyEdge , Spacenet , and StarBand appearing in this annual report on I trademarks of Our company and its subsidiaries. See Item 4: Information on the 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 Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition and results of operations. Actual 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 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 U.S., 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 March 26, 2007 was NIS 4.2030 per $1.00.

As used in this annual report, the terms we , us , Gilat and our mean Gilat Satellite Networks Ltd. and its subsidiaries, unless otherwise indicated.

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.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3: KEY INFORMATION

Selected Consolidated Financial Data

The selected consolidated statement of operations data set forth below for the years ended December 31, 2004, 2005 and 2006, and the selected consolidated balance sheet data as of December 31, 2005 and 2006 are derived from our audited consolidated financial statements that are included elsewhere in this 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, 2002 and 2003 and the selected consolidated balance sheet data as of December 31, 2002, 2003 and 2004 are derived from our audited consolidated financial statements that are not included in this Report.

The selected consolidated financial data set forth below should be read in conjunction with 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 for the year ended December 31, 2006.

	Year ended December 31.				
	2006	2005	2004	2003	2002
	U.S. Dollars in thousands except per share data				
Statement of Operations Data:					
Revenues:					
Products	$ 126,093	$ 88,705	$ 100,122	$ 120,776	130,011
Services	122,617	120,690	141,376	69,401	78,744
	248,710	209,395	241,498	190,177	208,755
Cost of revenues:					
Products	65,206	42,312	48,703	75,560	73,182
Services	91,982	90,323	113,692	75,553	95,846
Write-off of inventories	1,157	584	2,000	6,434	20,107
	158,345	133,219	164,395	157,547	189,135
Gross profit	90,365	76,176	77,103	32,630	19,620
Operating expenses:					
Research and development expenses, net	13,642	13,994	13,879	16,949	25,066

	Year ended December 31.				
Selling and marketing expenses	36,475	31,329	33,282	31,264	35,990
General and administrative expenses	25,950	29,043	35,647	40,456	50,237

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	Year ended December 31.				
	2006	2005	2004	2003	2002
	U.S. Dollars in thousands except per share data				
Provision and write-off for doubtful accounts and capital lease receivables	850	422	717	1,383	34,714
Impairment of goodwill	--	--	--	5,000	13,049
Impairment of tangible and intangible assets	--	--	2,161	26,912	50,666
Restructuring charges	--	--	--	3,905	--
Operating income (loss)	13,448	1,388	(8,583)	(93,239)	(190,102)
Financial expenses, net	742	2,677	266	3,256	21,324
Gain from restructuring of debts	--	--	--	244,203	--
Other income (expense)	138	299	(274)	954	--
Gain (loss) from write-off of investments in affiliated and other companies	--	--	--	3,300	(51,379)
Income (loss) before taxes on income	12,844	(990)	(9,123)	151,962	(262,805)
Taxes on income	2,357	3,126	4,429	9,690	929
Income (loss) after taxes on income	10,487	(4,116)	(13,552)	142,272	(263,734)
Equity in earnings (losses) of affiliated companies	--	400	1,242	488	(29,334)
Minority interest in losses of a subsidiary	--	--	164	871	3,517
Income (loss) before cumulative effect of a change in an accounting principle	10,487	(3,716)	(12,146)	143,631	(289,551)
Gain (loss) from cumulative effect of a change in an accounting principle	--	--	611	--	(56,716)
Loss from discontinued operations	--	--	--	--	(1,937)
Net income (loss)	$ 10,487	$ (3,716)	$ (11,535)	$ 143,631	$ (348,204)
Earnings (loss) per share before cumulative effect of a change in an accounting principle					
Basic	$ 0.41	$ (0.17)	$ (0.55)	$ 12.09	$ (245.59)
Diluted	$ 0.38	$ (0.17)	$ (0.55)	$ 11.31	$ (245.59)
Basic and diluted net earnings (loss) per share from cumulative effect of a change in an accounting principle	--	--	$ 0.03	--	$ (48.10)
Basic and diluted loss per share from discontinued operation	--	--	--	--	$ (1.64)

	Year ended December 31.				
Net earnings (loss) per share:					
Basic	$ 0.41	$ (0.17)	$ (0.52)	$ 12.09	$ (295.33)
Diluted	$ 0.38	$ (0.17)	$ (0.52)	$ 11.31	$ (295.33)
Weighted average number of shares used in computing net earnings (loss) per share:					
Basic	25,799	22,440	22,242	11,881	1,179
Diluted	27,520	22,440	22,242	12,819	1,179

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	As of December 31,				
	2006	2005	2004	2003	2002
	U.S. dollars in thousands				
Balance Sheet Data:					
Working capital	$ 120,634	$ 70,207	$ 67,750	$ 74,490	$ 127,527
Total assets	440,214	372,977	391,094	401,956	474,214
Short-term bank credit and current maturities of long-term debt	7,737	15,884	13,028	4,770	10,023
Convertible subordinated notes	16,333	16,333	16,171	15,543	358,648
Other long-term liabilities	74,253	156,490	179,453	190,917	172,745
Shareholders' equity (deficiency)	$ 212,059	$ 85,498	$ 81,421	$ 76,401	$ (172,915)

RISK FACTORS

Risks Relating to Our Business

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

While we achieved net income of approximately $10.5 million in 2006 we incurred losses of 3.7 million in 2005 and $11.5 million in 2004. We can not assure you that we can continue to operate profitably in the future. If we do not sustain profitability, the viability of our company will be in question and our share price could decline.

If commercial wireless communications markets fail to grow as anticipated, our business could be materially harmed.

A number of the commercial markets for our products and services in the wireless communications area, including our broadband products, have been developed only 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 wireless communications products fail to grow, or grow more slowly than anticipated, our business could be materially harmed. Conversely, to the extent that growth in these markets results in capacity limitations in the wireless communications area, it could materially harm our business and impair the value of our shares. Specifically, we derive virtually all of our revenues from sales of VSAT communications networks and provision of services related to these networks. 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.

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 affected by trends and factors affecting the telecommunications industry, which are beyond our control and may affect our operations. These trends and factors 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;

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.

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 sales revenue is derived from being selected as the supplier of networks based on VSATs, under large-scale contracts that we are awarded from time to time in a competitive bidding process. These large-scale contracts typically involve the installation of 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.

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 could have a significant adverse impact on our business.

In recent years, a significant portion of our revenues has been from large-scale contracts, including those in Peru, Colombia, Mexico and Brazil. Agreements with the governments in these countries typically include unilateral early termination clauses and other risks such as the imposition of new government regulations and taxation that could pose additional financial burdens on us. In addition, the foreign exchange risks in these countries are often significant due to possible fluctuations in local currencies relative to the U.S. dollar. 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 addition, in November 2002, we were awarded two large projects by the Colombian government, including the installation and operation of approximately 550 telecenters to provide Internet connectivity and telephony services in cities and towns throughout Colombia and a second site of approximately 3,300 public rural satellite telephony network. The original total value of the contracts was approximately $72 million and the remaining value of the contracts, which are being held in restricted cash, is approximately $22.8 million as of December 31, 2006. If we do not meet certain minimum equity requirements, the Colombian government may assert that we are in breach of our contract with them. Any early unilateral termination by the Colombian government could have a significant adverse impact on our operating results.

If we are unable to develop, introduce and market new 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. For example, in February 2004, we introduced the SkyEdge product family, which delivers broadband, Internet, data, voice and video services over a single platform. Until then, each of these applications demanded a separate hub. In addition, in 2005, in order to meet the demands of utility companies and government customers, we introduced our Armadillo VSAT, a durable, environmentally controlled broadband satellite router system suitable for use in outdoor environments and extreme weather conditions. Our success is dependent upon our ability to continue to develop new 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.

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. We also expect space segment prices to decline, in particular in the U.S. where two of our competitors have announced plans to launch extended Ka-band satellites. We also expect that competition in this industry will continue to increase. To offset these price decreases, we intend to rely primarily on obtaining yield improvements and corresponding cost reductions in the manufacturing process of existing products, on the introduction of new products with advanced features and on offering turnkey and other solutions to communications operators that are higher up in the value chain. However, we cannot assure you that we will be able to obtain any yield improvements or cost reductions, introduce any new products in the future or reach the higher value chain to which we strive to sell. To the extent that we do not meet any or all of these goals, it could materially harm our business and impair the value of our shares.

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

A majority of our business generated in 2006 was from recurring customers, and, 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, this could materially adversely affect our financial performance.

We are dependent upon a limited number of suppliers for key components to build our hubs and VSATs, and may be significantly harmed if we are unable to obtain the hardware necessary for our hubs and VSATs 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. In the past, 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 vendors and subcontractors to obtain components for our products on favorable terms in order to reduce the overall price of our products. If we are unable to obtain the necessary volume of components at desired favorable terms or prices, we may be unable to produce our products at desired favorable terms or prices. As a result, sales of our products may be lower than expected, which could have a material adverse effect on our business, financial condition and operating results. In addition, recently, the lead-time for product delivery requested by our customers has shortened significantly. Our suppliers are not always able to meet our requested lead times. If we are unable to satisfy these customers needs, we could lose their business.

The terms on which we are able to obtain components for our products are also affected by our relationship with our suppliers. In this regard, we entered into a non-exclusive supply chain management agreement with Arrow/Rapac Ltd., or Arrow, a part of Arrow Electronics, Inc., to purchase certain components necessary for the manufacture of our products as well as to provide comprehensive logistic services. While this agreement is intended to guarantee the supply of our products and reduce prices, it also increases our reliance on a single sub-contractor. Any inability on Arrow s part to substantively perform under the agreement could have an adverse effect on our operations.

We operate in a highly competitive network communications industry. We may be unsuccessful in competing effectively against many of our 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 substantially greater financial resources, providing them with greater research and development and marketing capabilities. These 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., and iDirect Technologies. Most of our competitors have developed or adopted different technology standards for their VSAT products. To the extent that one of these competing standards becomes an industry standard, demand for our products will decrease and our business will be harmed.

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). As operators that offer terrestrial or cellular networks expand their reach to certain SRC regions, they compete with our VSAT solutions.

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 U.S. If we are unable to protect our intellectual property, our ability to operate our business and generate expected revenues may be harmed.

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

Our international sales expose us to changes in foreign regulations and tariffs, 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 U.S., 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 Latin American country may decide that high-speed data networks used to provide access to the Internet should be made available generally to Internet service providers and may require us to provide our wholesale service to any Internet service 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 instability in countries in which we do or desire to do business. For example, economic instability in Brazil has led to an increase in the value of the Brazilian Reals. Such unexpected increases have had an adverse affect on the gross margin of our projects in Brazil. We also face similar risks from potential or current political and economic instability in countries such as Russia, Kazakhstan, Angola, India and Kenya;

trade restrictions and changes in tariffs which could lead to an increase in costs associated with doing business in foreign countries;

difficulties in staffing and managing foreign operations that might mandate employing staff in the U.S. and Israel 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;

seasonal reductions in business activities;

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

We may face difficulties in obtaining regulatory approvals for our telecommunication services, which could adversely affect our operations.

Our telecommunication services require licenses and approvals by the Federal Communications Commission, or FCC, in the U.S., and by regulatory bodies in other countries. In the U.S., 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 lengthy sales cycles could harm our results of operations if forecasted sales are delayed or do not occur.

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

Our operating results may vary significantly from quarter to quarter and these quarterly variations in operating results, as well as other factors, may contribute to the volatility of the market price of our shares.

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

- 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:

- 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;
- 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 following periods of volatility.

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 in the past or are at present infringed 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. 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 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.

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.

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. We are unable to predict whether or when any prospective acquisition will be completed. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management s attention. 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. 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. Future acquisitions by us could result in 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;

large one-time write-offs;

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; and

potential loss of key employees of acquired organizations.

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

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 could result in substantial costs and a diversion of our management s attention and resources.

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

As of March 1, 2007, York Capital Management, or York, and entities affiliated with them beneficially own or vote approximately 30% 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. As a result, 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. 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.

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 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 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 U.S. 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 (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 carryforward losses. On April 1, 2005, an amendment to the Investment Law, or the Amendment, came into effect, and has 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 will be 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, 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. For additional information concerning Israeli taxation, please see Israeli Taxation.

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. We may be subject to certain restrictions under the terms of the Chief Scientist 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. These restrictions do not apply to the sale or export from Israel of our products developed with this technology.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we may follow certain home country corporate governance practices instead of NASDAQ requirements.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules, including the composition of our Board of Directors, director nomination procedure, compensation of officers, distribution of annual reports to shareholders, and quorum at shareholders meetings. In addition, we may follow Israeli law instead of the NASDAQ Marketplace Rules that require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of our company, certain transactions other than a public offering involving issuances of a 20% or more interest in our company and certain acquisitions of the stock or assets of another company.

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, or our internal control over financial reporting is not effective, the reliability of our financial statements may be questioned and our share price may suffer.

Section 404 of the Sarbanes-Oxley Act requires any company subject to the reporting requirements of the U.S. securities laws to do a comprehensive evaluation of its and its combined subsidiaries internal control over financial reporting. To comply with this statute, we are required to document and test our internal control procedures and our management has assessed and issued a report concerning our internal controls over financial reporting in this annual report on Form 20-F. Our independent auditors will be required to issue an opinion on management s assessment of those matters for our annual report on Form 20-F for the fiscal year ending December 31, 2007. The rules governing the standards that must be met for management to assess our internal controls over financial reporting are relatively new and complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules.

Risks Related to Doing Business 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. Major hostilities between Israel and its neighbors may hinder Israel s international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business.

Since September 2000, there has been substantial deterioration in the relationship between Israel and the Palestinian Authority that has resulted in increased violence. The future effect of this deterioration and violence on the Israeli economy and our operations is unclear. The recent election of representatives of the Hamas movement to a majority of seats in the Palestinian Legislative Council has resulted in an escalation in violence among Israel, the Palestinian Authority and other groups. In July and August 2006, significant fighting took place between Israel and Hezbollah in Lebanon, resulting in rockets being fired from Lebanon up to 50 miles into Israel. Ongoing violence between Israel and the Palestinians as well as tension between Israel and the neighboring Syria and Lebanon may have a material adverse effect on our business, financial conditions and results of operations.

In addition, in recent years, Israel has been going through a period of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel deteriorate again. Also, due to significant economic measures proposed by the Israeli government, there have been several general strikes and work stoppages in 2003 and 2004, affecting banks, airports and ports. These strikes have had an adverse effect on the Israeli economy and on business, including our ability to deliver products to our customers. Following the passage by the Israeli Parliament of laws to implement the economic measures, the Israeli trade unions have threatened further strikes or work stoppages, and these may have a material adverse effect on the Israeli economy and on us.

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

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

Generally, 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.

Terrorist attacks in Israel and globally may have a material adverse effect on our operating results.

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

Our operating results would be adversely affected if inflation in Israel is not offset on a timely basis by a devaluation of the NIS against the U.S. dollar.

Our international sales expose us to fluctuations in foreign currencies. Most of our sales are denominated in U.S. dollars. When the Israeli inflation rate exceeds the rate of the NIS devaluation against foreign currencies, our NIS expenses increase to the extent of the difference between the rates. A significant disparity of this kind may have a material adverse effect on our operating results.

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares 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 typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders 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 shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

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 nearly all of our employees. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. Recently, Israeli courts have required employers, seeking to enforce non-compete undertakings against former employees, to demonstrate that the competitive activities of the former employee will cause harm to one of a limited number of material interests of the employer recognized by the courts (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

OUR BUSINESS

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 combine a large central earth station, called a hub, with multiple remote sites (ranging from tens to thousands of sites), which communicate 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 670,000 VSAT units to customers in over 85 countries on six continents since 1989. We have 16 sales and service 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 U.S. and certain countries in Latin America, we provide services directly to end users in various market segments.

We currently operate three complementary, vertically-integrated business units:

Gilat Network Systems, or GNS, is a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide. According to the 2005 COMSYS VSAT Report, prepared by Communications Systems Limited, or COMSYS, a leading satellite industry research firm, we are the second-largest manufacturer of VSATs, with a 21% global market share of shipped VSATs. We also provide industry specific solutions for cellular backhaul, governments, business continuity and disaster recovery. In the year ended December 31, 2006, we derived approximately 46% of our revenues from GNS. GNS s representative customers include StarOne in Brazil, Optus in Australia, China Unicom, Bharti in India, Global Teleport in Russia, Telkom in South Africa and AT&T in Europe.

Spacenet Inc. provides satellite and hybrid terrestrial network services to enterprises, governments, small office/home office, or SOHOs, and residential customers in the U.S. According to the COMSYS report, we have a 20% market share of U.S. VSAT enterprise sites. In the year ended December 31, 2006, we derived approximately 38% of our revenues from Spacenet. Spacenet s representative customers include Dollar General, Goodyear, Intercontinental Hotels Group, Valero, Sunoco and Kroger.

Spacenet Rural Communications, or 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. We believe that we are the largest rural satellite telecom provider in Latin America, and currently have 16,000 operational sites. In the year ended December 31, 2006, we derived approximately 16% of our revenues from SRC.

Since July 2005, we have operated under a new management team as well as a new board of directors. Our Chairman and CEO, Amiram Levinberg, who is a co-founder of our company, leads a highly experienced team of satellite industry executives. Our new management has refocused our business strategy and continued our financial turnaround, which has resulted in four consecutive quarters of increasing revenues and net income.

We have diversified revenue streams that result from both sales of products and services. In the year ended December 31, 2006, approximately 51% of our revenues were derived from product sales and approximately 49% of our revenues were derived from services. Our service revenues are derived from long-term contracts of three to six years, which provide stability and visibility into future revenues. As of December 31, 2006, we had a backlog of $209 million for equipment and multi-year service contracts. During the same period, we derived 37.8% of our revenues from the U.S., 32.0% from South and Central America, 15.3% from Asia, 7.5% from Africa and 7.4% from Europe.

We were incorporated in Israel in 1987 and shipped our first generation VSAT in 1989. 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 55 issued patents (24 U.S. and 31 foreign). As of December 31, 2006, we had approximately 950 employees, including 160 persons engaged in research, development and engineering activities.

Industry Overview

Satellite networks are comprised of multiple ground stations that communicate through a satellite in orbit, providing continent-wide wireless connectivity. VSAT networks are used in a variety of applications such as broadband, Internet, voice, data and video. VSAT networks are usually deployed in a hub-and-spoke configuration, with customer locations connecting directly via satellite to a central hub facility. The value chain of VSAT satellite networks consists of the following four main elements:

Satellite operators provide satellite transponder capacity on satellites positioned in geostationary orbit above the equator. Once in orbit, a satellite beam can typically service a geographic area the size of the continental U.S. or larger. The satellite receives information from a VSAT or the network hub, 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. 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/PanAmSat, SES and Eutelsat.

Ground station equipment providers manufacture VSAT networks that combine a large central earth station, called a hub, with multiple remote sites (ranging from tens to thousands of sites) which communicate via satellite. GNS is a leading ground station equipment provider.

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 SRC are leading communication service providers in the U.S. and in Latin America, respectively.

End users are customers utilizing equipment and satellite communication services. Examples of end users range from enterprises, to SOHOs, to residential consumers.

VSAT networks have a diverse range of uses and applications, and provide communication services as a stand-alone, alternate or complement 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- Deployment times (ranging from a few weeks to a few months) can ensure rapid connectivity.

Broadcast and multicast capabilities - The satellite medium is an ideal solution for broadcast and multicast applications 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 VSAT reliability, small number of components in the network as well as terrestrial infrastructure independence.

Scalability - VSAT networks scale easily from a single site to thousands of locations.

Cost-effectiveness - The cost of VSAT networks is distance independent and therefore a cost-effective solution for multiple sites in remote locations.

Applications delivery - Wide spectrum of capabilities and customer applications such as e-mail, virtual private networks, or VPN, video, voice, Internet access, distance learning, content distribution and financial transactions.

Portability - VSAT solutions can be mounted on vehicles or deployed rapidly in fixed locations, 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.

According to the COMSYS report, the VSAT equipment market generated approximately $750 million of revenues in 2004, which represents an annual growth rate of approximately 29% from 2003 to 2004. According to a Northern Sky Research report from 2006, the number of VSAT sites is expected to grow at a compounded annual growth rate, or CAGR, of approximately 17% through 2010.

According to the COMSYS report, the VSAT service market generated approximately $3.9 billion of revenues in 2004, which represents an annual growth rate of approximately 13% from 2003 to 2004. According to the Northern Sky Research report, the global broadband satellite services market is expected to have a CAGR of approximately 9% through 2010.

We believe that there are three primary categories of end-users that require VSAT products and services:

Enterprise and Business. This market includes large companies and organizations, government entities, small medium enterprises, or SMEs, and SOHO end users. For enterprises, VSAT networks offer network connectivity and deliver applications such as networks within corporations (known as corporate intranets), Internet connections for voice, data and video (known as broadband), 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. According to the Northern Sky Research report, global enterprise and SME IP VSAT sites will grow from approximately 600,000 in 2005 to 1.2 million sites in 2010. This represents a CAGR of 14.3%.

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 segment 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 $1.6 billion has been redistributed to the communications industry. In other instances, local communications operators have 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 and then transferred to the operator.

Consumer. The consumer market consists of residential users. These users require a high-speed internet connection that enables the transmission of data, audio and video, similar to a digital subscriber line, or DSL, or cable modem service. According to the Northern Sky Research report, 82.9% of these sites are located in North America.

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 670,000 VSATs to customers in over 85 countries. Our customer base includes a large number of satellite-based communications service providers and operators worldwide. In addition, we provide satellite-based communication services primarily to enterprises in the U.S. and we are the largest satellite communications service provider 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 2005 COMSYS report, our global market share to the enterprise market was approximately 21%, based on the number of terminals shipped, making us the second largest VSAT manufacturer in the world for this segment.

Technology leadership. We have been at the forefront of VSAT technology and services for almost 20 years and continue to be an innovator and developer of new satellite technologies. Our highly customizable single platform VSAT technology enables us to provide our customers with a wide range of broadband, Internet, voice, data and video solutions and our product and operations infrastructure is capable of running hubs with greater than 99.99% availability while rolling out thousands of new VSAT site locations each month. We have unified all our legacy product lines under SkyEdge, our latest generation VSAT product family. The single platform of products enables us to focus our research, development and engineering efforts, which are supported by approximately 160 persons. This enables us to rapidly develop new features and applications. In addition, 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.

As an example of our technology innovation, we have adapted our SkyEdge platform to meet the Cisco Systems criteria for interoperability with its Cisco VSAT Network Module, or NM. We are a Cisco Systems Technology Developer Partner and, with our SkyEdge hubs, we offer interoperability with the Cisco VSAT NM that may be integrated into several of Cisco s routers, enabling near-instantaneous failover from a primary circuit to the satellite backup.

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 16 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. Our three business units, GNS, Spacenet and SRC, enable us to provide a full turnkey solution to our customers by integrating a diverse range of value-added products and services. Our offerings range from VSAT network equipment, installation, operation and maintenance to provide services ranging from broadband, Internet, voice, data and video to managed solutions that are highly flexible and customizable. 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 one-year period ended December 31, 2006, our revenues were equally generated from products and 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, 2006, our three business units, GNS, Spacenet and SRC, accounted for 46%, 38% and 16% of our revenues, respectively. We are not overly dependant on any single customer, project or geographic region and no single customer accounted for more than 10% of our revenues.

Strong financial position. Our strong financial position allows us to compete effectively with other companies in our industry. We have had five consecutive quarters of revenue growth and improved profitability. As of December 31, 2006, our cash and cash equivalents increased to $149.5 million, from $74.9 million at December 31, 2005, and we reduced our debt to $45.2 million, from $119.8 million at December 31, 2005.

Experienced management team. Since July 2005, we have operated under a new management team as well as a new board of directors. 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 new management has refocused our business strategy and continued our financial turnaround, which has resulted in four consecutive quarters of increasing revenues and net income.

Our Growth Strategy

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

Enhance our leadership position in our core markets. We are expanding our position in the VSAT market through the development of new products, solutions and services within our target markets. Through the development of our SkyEdge single platform product and our end-to-end solution offerings, we are focused on providing innovative products and services required by our customers and end-users. Currently, our research and development efforts are focused on a number of initiatives, including increasing the satellite communications efficiency of our products, increasing the levels of network performance and enhancing ease of use and user interfaces. We are also expanding our VSAT products throughput by increasing the amount of data that can be processed during the upload and download process and we are expanding the use of our VSAT technology for applications such as cellular backhaul, electronic voting and business continuity.

Expand our presence across the communications value chain. We are currently a leading global provider of VSAT network equipment and services. GNS is focused on providing more than VSAT equipment to our customers by offering full solutions and turnkey implementation based on capabilities developed to meet customer requirements. Spacenet is focused on more than connectivity by expanding its offering to include managed network services and other value-added services.

Focus on emerging markets. We are expanding 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. At this time, available worldwide USF funding is estimated to be $4.4 billion in approximately 15 countries. As this communications rollout is adopted, VSAT-based communication networks provide a high quality, cost-effective alternative to terrestrial, wireless and cellular systems. GNS is currently focusing its growth efforts to service providers that are either being required by USOs to facilitate the rural expansion, or to service providers that are utilizing the subsidies created through USFs. SRC is also focusing on expanding its services to emerging markets with USFs.

Focus on business continuity. We are addressing the growing area of business continuity and disaster recovery applications by providing secondary networks for continuous operations during network failures or natural disasters. As one of our business continuity solutions, we have adapted our SkyEdge platform to meet the Cisco Systems criteria for interoperability with its Cisco VSAT Network Module, or NM. We are a Cisco Systems Technology Developer Partner and, with our SkyEdge hubs, we offer interoperability with the Cisco VSAT NM that may be integrated into several of Cisco s routers, enabling near-instantaneous failover from a primary circuit to the satellite backup.

Enter new strategic markets. We have identified a number of markets which we believe will be strategic to our future growth, including Broadband Wireless Access, or BWA, solutions and additional government markets. BWA is a developing technology designed to solve the last mile connectivity problem facing many rural and remote locations. Service providers are using BWA systems to provide a link between end users and communications networks. We already have significant operations in emerging markets and have established sales and distribution channels in many of these remote locations. The current focus of most established BWA providers is geared toward urban and mobile solutions. We will leverage our distribution channels, expertise and presence in rural areas to provide BWA solutions, which will complement our present product offerings.

We also intend to leverage our technology expertise to further develop customized VSAT products, applications and services for the government and government-supported sectors in additional territories. Many governments, including the U.S., require applications with specific communication parameters that are particularly well-suited for satellite networks based on cost and performance. These applications range from border control and sensitive military applications to distance learning and open classroom education programs.

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 Business Units

Gilat Network Systems

Overview

GNS is a leading global provider of network systems and associated professional services for operators of satellite communications systems. Our operational experience in large VSAT networks together with our local offices worldwide enables us to work closely and directly with those operators. We provide VSAT communication equipment and solutions to the enterprise, rural communications and consumer markets.

Our SkyEdge product portfolio delivers efficient, reliable and affordable broadband, Internet, voice data and video. SkyEdge offers a cost-effective way to deliver the communications services that enterprises, carriers, service providers and governments require, from interactive data and broadband IP to public telephony and corporate voice over Internet Protocol, or VoIP, services.

We also 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.

GNS is headquartered in Petah Tikva, Israel and has 12 offices worldwide, with approximately 500 employees. In the year ended December 31, 2006, GNS had revenues of $136.0 million, including sales of $19.8 million to Spacenet and SRC.

Products and Solutions

SkyEdge Family of Products

Our SkyEdge platform is based on a single hub with multiple VSATs to support a variety of services and applications. Our advanced access scheme and quality of service implementation enables delivering high quality services in an efficient manner. The SkyEdge system can support triple play services, such as wireline quality voice, video, and data on the same platform. In addition, multiple network topologies can be deployed with the same platform. This enables an improved user-experience and reduced operating expenses.

We currently offer the following VSAT products:

Product	*SkyEdge IP*	*SkyEdge PRO*	*SkyEdge Call*	*SkyEdge Gateway*	*SkyEdge Armadillo*
Description	IP Router VSAT	Multi-Service VSAT	Telephony VSAT	Trunking Solution VSAT	VSAT for outdoor applications
Interfaces	Single IP	Multiple IP, Multiple Telephony, Mesh	Single IP, Dual Telephony	Multiple IP, Multiple Telephony, E1, Mesh	Single IP
Typical Application	Internet, Intranet, E-mail, VoIP, IP devices, Transactions	Internet, Native voice, VoIP, Video conferencing	Internet, Native voice	E1 Trunking, Voice, Video, Data	Outdoor install, Transactions, IP devices
Type of Customers	Residential, SOHO, SME, Enterprise	SME, Enterprise, Carriers	Carriers for USOs	Enterprise, Carriers	Utility, SCADA, Video surveillance

All of these products are connected to a microwave outdoor unit which is mounted on a dish antenna.

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, in 2005, we released an integrated solution, called SkyAbis, which 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.

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We currently offer the following solutions:

Solution	*SkyAbis*	*e-Post*	*e-Voting*	*Disaster Recovery/Rapid Deployment*	*Cisco VSAT NM*
Description	Cellular traffic backhaul enabling operators to expand their market reach	Turnkey communication and applications for electronic postal services	Turnkey communication, authentication and electronic voting for national elections	Transportable and man-pack units communication solutions	Satellite-based networking for Cisco router with Cisco VSAT NM
Typical Application	Cellular backhaul for GSM and CDMA networks	Communication network, Internet access, Fax, Prepaid telephony, Counter automation software, Money transfer	Communication network, Polling terminals, Fingerprint identification system	On-demand access to voice, data, video	Business continuity, Disaster recovery, Content distribution
Type of Customers/ Vertical	GSM and CDMA cellular operators	Governments, Postal agencies	Governments, National election committees	Mobile medical units, Mobile ATM, Military and security forces, Fire and police units	Enterprise, Financial sector, Government
Selected customers	Enitel (Nicaragua)	Posta (Kenya)	CNE (Venezuela)	Petrobras (Brazil), Metpresa (Mexico)	Cisco sales channel customers, Valero (U.S.)

Turnkey Implementation Capabilities

We provide end-to-end turnkey solutions and integration to existing infrastructures. This includes network rollout projects, where we provide operators with a fully operational network. We also provide consultancy and other professional services for customers.

Among the components that go into our turnkey projects are planning (including network analysis, system design, teleport design and network, space segment and backhaul planning), integration of our existing operators infrastructure and equipment with the VSAT network and implementation of the project plan.

Manufacturing, Customer Support and Warranty

Our products are designed and tested primarily at our facilities in Israel. We outsource a significant portion of the manufacturing of our products to third parties. 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, 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.
- 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. We also provide extended warranty services through our SatCare program, for an additional annual fee.

GNS Customers and Markets

We sell VSAT communications networks and solutions primarily to service providers. The service providers to whom we sell our products and solutions are primarily serving the enterprise and rural communication market segments. We have more than 200 customers worldwide.

Enterprise service providers use our networks for broadband, Internet, voice, data and video connectivity 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. Examples of service providers to whom we sell VSAT networks are StarOne in Brazil whose end users include franchises such as O Boticario, a major Brazilian cosmetics chain, and HCL in India whose end users include stock brokerage firms.

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 Telkom in South Africa, China Unicom and Embratel in Brazil.

Our VSAT networks also provide underserved areas with a high-speed Internet connection similar to DSL service to residential users. Examples of customers in this area are StarOne in Brazil and Optus in Australia.

GNS 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 GNS equipment sales division has organized its marketing activities by geographic areas, with groups, subsidiaries or affiliates covering most regions of the world. Our sales teams are comprised of account managers and sales engineers (approximately 130 employees), who establish account relationships and determine technical and business requirements for the 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 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 understanding customer needs, several network design iterations, network demonstrations, and on occasion, software development and integrations with third-party equipment for complete solution offerings.

Spacenet Inc.

Overview

Spacenet provides satellite network services to business, government and residential customers in the U.S. In addition, we offer our enterprise customers value-added services, including hybrid satellite/terrestrial networks and outsourced network management.

Spacenet s equipment and services are currently deployed at more than 100,000 business, government and residential locations in the U.S. Our customers include Dollar General, Goodyear, Intercontinental Hotels Group, Valero, Sunoco and Kroger. The 2005 COMSYS report ranked Spacenet as the second largest satellite network service provider in North America for the enterprise/government market, with a 20.5% market share, which is more than four times larger than the third-ranked provider. Our market includes WAN services for retail, energy , financial services, hospitality and government customers, as well as Internet access services for SOHO and residential customers.

Spacenet is based in McLean, Virginia, and has approximately 230 employees. In the year ended December 31, 2006, Spacenet had revenues of $93.6 million.

Services

Spacenet offers prepackaged and custom 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:

Service	*StarBand*	*Connexstar Transaction*	*Connexstar Broadband*	*Connexstar Performance*	*Spacenet Custom Networks*
Description	VSAT Internet access services	Low-bandwidth VSAT network	Commercial grade broadband VSAT networks	High-bandwidth VSAT network	Customized VSAT and hybrid terrestrial WANs
Typical applications	Web, E-mail	Credit cards, Point-of-sale, SCADA	Intranet, Credit cards, Back-office applications	VoIP, Video monitoring, Backup networks	Credit cards, Point-of-sale, Multicast, Intranet
Target Markets	SOHOs	Utilities pipeline networks, Lottery operators	Retail, Hospitality, Small business	Disaster recovery, Business continuity, Government, Energy exploration	Large enterprise customers
Sample Customers	Residential users	Chevron Pipeline, TXU	Do It Best, Boston Market	Government, Cisco-based networks	Goodyear, Sunoco

Spacenet s custom network services for large enterprise and government customers provide secure private networks specifically sized and tuned to a customer s application, protocol support and bandwidth needs. These networks may be delivered as a private hub (each set of hub 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/satellite networks in which Spacenet provides management of both network components, integrating them as a single WAN.

Spacenet s standard Connexstar 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 backup use.

These services are also available in fixed site or transportable configurations for on-the-go communications. All 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.

Network Operations and Customer Support

We operate teleport facilities with Network Operation Centers, or NOCs, in the McLean, Virginia, Chicago, Illinois, and Marietta, Georgia. Our operations staff of more than 100 people 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 on legacy VSAT platforms. The Marietta NOC facility operates the Connexstar and StarBand services as well as the first and second-level call center. The McLean headquarters facility provides pilot and disaster recovery hub operations, third-tier network escalation and advanced network management services.

For enterprise and government satellite networks, we offer SLAs 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 and government services directly through a team of ten major-account executives as well as through a network of approximately 30 authorized enterprise service resellers, primarily telecom carriers, IT integrators and value-added resellers focused on specific industries.

Our StarBand SOHO and residential services are sold both directly and through approximately 600 sales agents, that are typically direct-to-home satellite TV resellers and/or satellite Internet service resellers. Our distribution channel strategy is shown below:

Spacenet Rural Communications

Overview

SRC is a service provider for public telephony and Internet services to rural areas in Latin America, mainly in Peru and Colombia. 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, SRC uses its infrastructure to provide services to enterprise, SME, SOHO and residential customers. SRC also provides outsourcing of VSAT network implementation and operation to other operators in the region.

SRC has offices in Peru and Colombia and employs approximately 220 persons. In the year ended December 31, 2006 SRC had revenues of $38.9 million.

SRC Services and Solutions

We began to operate in Peru in 1998, with the award of our first rural telephony project called Frontera Norte for FITEL, with approximately 200 sites. Since then, we have participated in almost every rural communications project launched by the Peruvian government and have won, either wholly or partially, all five projects. Overall, we operate almost 6,000 telephony sites in Peru, of which approximately 600 have Internet connectivity, and have been awarded over $45 million in government subsidies to build and operate these networks. In addition, we have developed services for private customers, such as Banco de la Nacion, 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, the network in Peru has reduced the distance between rural phone locations from 50km to 5km.

SRC Colombia started operations in 1999 by winning the government s Compartel I project focused on rural telephony. Since then we have been awarded two additional projects with over $100 million in government subsidies in the aggregate.

Currently, SRC Colombia operates a network of almost 10,000 rural sites spread throughout the country, serving over seven million persons. The services for those rural sites include telephony, Internet, data, fax and other services. In order to comply with government bid requirements, SRC has integrated a variety of technologies into its VSAT based network such as wireless local loop and cellular.

In addition to its well established operations in Peru and Colombia, SRC provides services to customers in other countries in the region. In Panama, SRC is working with Cable & Wireless to allow it to fulfill its USO with cost efficient technology and high quality service. In Venezuela, SRC was hired by the Venezuelan electoral entity, or CNE, to manage a 3,000 site network for the transmission of voting data. SRC was responsible for logistics, installations and operations of the satellite network for the CNE. The project was installed and fully operational in 45 days. CNE has used SRC in subsequent elections to supervise, manage and support installations as well as manage and support hub operations during elections.

Customer Support Operations

SRC complements its 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.

SRC Customers and Markets

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 Compartel 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 SRC s first Build-Operate-Transfer customer.

Enterprise and Government Agencies:

We also provide private network services to enterprises and government agencies. These customers contract directly with SRC 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.

SRC Sales and Marketing

We use direct 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.

Competition

The network communications industry is highly competitive and the level of competition is increasing. In the equipment market, GNS faces competition from other VSAT providers, such as Hughes Network Systems LLC, Viasat, iDirect and other smaller vendors.

The U.S. enterprise VSAT market is primarily served by Spacenet and Hughes Network Systems LLC. 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). As operators that offer terrestrial or cellular networks expand their reach to certain SRC regions, they compete with our VSAT solutions.

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,		
	2006	2005	2004
United States	37.8%	41.3%	39.1%
South America and Central America	32.0%	29.6%	36.6%
Asia	15.3%	17.6%	13.5%
Africa	7.5%	6.3%	5.8%
Europe	7.4%	5.2%[1]	4.8%[1]
Other	-	-	0.2%
Total	100.0%	100.0%	100.0%

[1] Including revenues from a related party of 1.2% and 0.8% for the years ended December 31, 2004 and 2005, respectively

Capital Expenditures and Divestitures. In 2004, 2005 and 2006, our property and equipment purchases amounted to approximately $6.2 million, $3.6 million and $6.5 million, respectively. These amounts do not include the reclassification of inventory to property and equipment made during 2004, 2005 and 2006 in the amount of approximately $21.7 million, $7.3 million and $9.2 million, respectively. In 2004, we completed the sale of our Argentinean subsidiary, Servicio Satelital S.A. to a third party. In 2005, we completed the sale of Deterministic Networks Inc. to some of its employees, we purchased the remaining shares of StarBand and our shareholdings in Satlynx were diluted from approximately 40.6% to 0.17%. On March 1, 2006 we and SES executed an agreement whereby we transferred our remaining 0.17% interest in Satlynx to SES. As part of this agreement, we received a waiver from SES on any royalty payments which may be payable by us to SES in accordance with development agreements signed between the parties in 2002 and SES provided a corporate guarantee to cover Satlynx s obligations to us..

Strategic Alliances, Joint Ventures and Acquisitions

We have acquired certain entities and established certain key strategic marketing relationships and joint ventures, including the following:

StarBand. On May 31, 2002, StarBand, a joint venture established with MSN, Echostar and ING, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In November 2003, StarBand emerged from bankruptcy and we held 49.1% of StarBand. Upon StarBand s emergence from Chapter 11, and in consideration of the 49.1% interest issued to us at that time, we forgave approximately $84 million of debt that we provided to StarBand and we entered into three agreements with StarBand: (i) the restated master agreement for the supply of equipment and services upon the terms described above; (ii) a note and loan agreement providing for repayment of $14 million of debtor in possession financing supplied by us to StarBand during the Chapter 11 proceeding, bearing 3.5% annual interest and with quarterly payments to be made between March 31, 2004 and December 31, 2008 and principal payments to be made between March 31, 2006 and December 31, 2008; and (iii) a financing agreement for the provision of up to $7.5 million in revolving financing and trade credit, subject to various restrictions and reductions, through the end of 2009. In March 2005, we paid $600,000 for the remaining 50.9% of StarBand shares then held by certain Israeli banks. In addition, in the event certain events occur before December 31, 2007, including the sale of StarBand shares, the sale of substantially all of StarBand s assets to a third party, the merger with a third party or the dissolution of StarBand, we have agreed to pay the banks an amount equal to fifty percent of the consideration received by us, directly or indirectly, as a result of such events. We have consolidated StarBand into our financial statements as of January 1, 2004.

rStar. In January 2001, following a tender offer, we became the owner of 51% of the outstanding shares of rStar (a then publicly traded NASDAQ company) at a cost of approximately $51 million. In May 2001, rStar issued 19,396,552 shares of its common stock to us in full satisfaction of the approximately $45 million of outstanding capital lease obligations due to Spacenet Inc. ,which resulted in our increasing our shareholdings in rStar to approximately 66%. In August 2002, we increased our ownership interest to approximately 85%. In December 2003, we entered into an agreement with certain rStar stockholders to acquire an additional 9.3% of rStar s shares for $0.60 per share. In April 2004, immediately following such transaction, we effected a short-form merger and acquired the remaining shares of rStar. rStar is a holding company for most of our service entities in Latin America.

Backlog

Our 2006 year-end backlog for equipment sales and revenues from multi-year service contracts for our VSAT products was approximately $209 million, up from approximately $206 million at year-end 2005. 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.

Patents and Intellectual Property

We currently rely on a combination of patent, trade secret, copyright and trademark law, together with non-disclosure agreements and technical measures, to establish and protect proprietary rights in our products. Our patent portfolio includes 55 patents issued (24 U.S. and 31 foreign patents), 11 U.S. utility patent applications, 3 U.S. provisional patent applications and 12 foreign applications pending. All of the patents and applications that were developed and/or owned by our subsidiaries have been formally transferred to the parent company and are now controlled by us. In addition, we have filed patent applications with respect to our SkyEdge family of products, as well as patents concerning a range of other inventions. As part of our patent program, we intend to file additional patent applications on an ongoing basis.

We believe that our patents are important to our business. We also believe that the improvement of existing products, reliance upon trade secrets and unpatented proprietary know-how as well as the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage. We believe that the value of our products is dependent upon our proprietary software and hardware remaining trade secrets or subject to copyright protection. Generally, we enter into non-disclosure and invention assignment agreements with our employees, subcontractors and certain customers and other business partners.

Government Regulations

Regulatory Overview

The international telecommunications environment is highly regulated. As a provider of communications services in the U.S., we are subject to the regulatory authority of the U.S., primarily the FCC. We are also subject to regulation by the national communications authorities of other countries in which we provide service. Each of these entities can potentially impose operational restrictions on us. The changing policies and regulations of the U.S. and other countries will continue to affect the international telecommunications industry. We cannot predict the impact that these changes will have on our business or whether the general deregulatory trend in recent years will continue. We believe that continued deregulation would be beneficial to us, but also could reduce the limitations facing many of our existing competitors and potential new competitors.

We are required to obtain approvals from numerous national and local authorities in the ordinary course of our business in connection with most arrangements for the provision of services. The necessary approvals generally have not been difficult for us to obtain in a timely manner. However, the failure to obtain particular approvals has delayed, and in the future may delay our provision of services. Moreover, it is possible that any approvals that may be granted may be subject to materially adverse conditions.

United States Regulation

All entities that use radio frequencies to provide communications services in the U.S. are subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended, or the Communications Act. The Communications Act prohibits the operation of satellite earth station facilities and VSAT systems such as those operated by us except under licenses issued by the FCC. Major changes in earth station or VSAT operations require modifications to the FCC licenses, which must also be approved by the FCC. The licenses we hold are granted for ten-year terms. The FCC generally renews satellite earth station and VSAT licenses routinely, but we cannot guarantee that our licenses will be renewed at their expiration dates or that such renewals will be for full terms. In addition, certain aspects of our business may be subject to state and local regulation including, for example, local zoning laws affecting the installation of satellite antennas.

International Regulation

We must comply with the applicable laws and obtain the approval of the regulatory authority of each country in which we propose to provide network services or operate VSATs. The laws and regulatory requirements regulating access to satellite systems vary from country to country. Some countries have substantially deregulated satellite communications, while other countries maintain strict monopoly regimes. The application procedure can be time-consuming and costly, and the terms of licenses vary for different countries. In addition, in some countries there may be restrictions on our ability to interconnect with the local switched telephone network. In certain countries, there are maximum tariffs and fees set by the regulatory authority maximizing the fees that can be charged for the use of telephony services that we provide.

Trade Agreements

Israel is a member of the World Trade Organization and is a signatory of the General Agreement on Trade in Services and to the Agreement on Basic Telecommunications Services. Israel is a signatory to the General Agreement on Tariffs and Trade, which provides for the reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union concluded a Free Trade Agreement in July 1975 that confers certain advantages with respect to Israeli exports to most European countries and obligates Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area that has eliminated all tariff and certain non-tariff barriers on most trade between the two countries. On January 1, 1993, Israel and the European Free Trade Association, or EFTA, entered into an agreement establishing a free-trade zone between Israel and the EFTA nations. In June 2000, Israel was admitted as an Associate Member of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, (including Russia, the People s Republic of China, India and nations in Eastern Europe and Asia), with which Israel had not previously had such relations.

Our significant subsidiaries

We own a number of subsidiaries and affiliated companies that provide marketing and sales support, sell our VSAT products or provide related services. The following table sets forth our significant subsidiaries, as of March 1, 2007:

Company	**Place of Incorporation**	**Ownership Interest**
Spacenet Inc.	United States	100%
Gilat Colombia S.A. E.S.P	Colombia	100%
Gilat to Home Peru S.A	Peru	100%

Facilities

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.

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 160,000 square feet of office space in McLean, Virginia. These offices house our personnel and also contain one of our U.S. shared hub centers. 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 also maintain facilities in Plano, Texas, Chicago, Illinois, Marietta, Georgia and in Brazil, Colombia, Mexico, and Peru, along with representative offices in Beijing, Melbourne, Pretoria, Bangkok, New Delhi, Almaty, Jakarta 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

Not applicable.

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

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 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 670,000 VSAT units to customers in over 85 countries on six continents since 1989. We have 16 sales and service 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 U.S. and certain countries in Latin America, we provide services directly to end users in various market segments.

We currently operate three complementary, vertically-integrated business units:

GNS is a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide.

Spacenet provides satellite network services to enterprises, small office/home office, or SOHOs, and residential customers in the U.S.

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.

Financial Background

We were incorporated in 1987 and began trading on the NASDAQ Stock Market in 1993. After a general decline in the economy and a decline in our business in 2001 and 2002, we commenced an arrangement in October 2002 to restructure our debt with holders of our convertible bonds, bank lenders (the largest of which was Bank Hapoalim) and other creditors, which was successfully completed in March 2003. Our financial condition in early 2003 continued to negatively impact our sales. At that time, our management and board of directors went through significant change. During these years, new management imposed lay-offs and budget cuts and embarked on an effort to streamline our operations in order to increase efficiency and reduce costs.

As a result of the above arrangement, in March 2003, we reduced our principal debt by approximately $309 million, which included $12 million of accrued interest. The arrangement significantly increased our shareholders equity, reduced our debt and reduced our financing costs.

In November 2003, we concluded an exchange offer pursuant to which the majority of the holders of the notes that we issued in March 2003 (as partial consideration for the exchange of $350 million of 4.25% convertible subordinated notes) converted their new notes into equity, further reducing our debt by approximately $76.0 million, which included $2.3 million of accrued interest.

In April 2004, we revised the terms of our loan from Bank Hapoalim, to whom we owed a principal debt amount of $71.4 million. As part of this amendment, we granted Bank Hapoalim a right to receive warrants for the purchase of our ordinary shares. The aggregate maximum exercise amount to be paid under the warrants was equal to the outstanding balance on the loan payable by us, including accrued interest.

In July 2005, Bank Hapoalim assigned the outstanding loan held by it to York. At that time, our then CEO and Chairman of the Board resigned and was replaced by our co-founder Amiram Levinberg. Five other board members were also replaced. Our revenues declined 13.3% from $241 million in 2004 to $209 million in 2005. The primary reason for the decline in product and service revenues was due to our increased focus on higher margin sales and recurring revenue business opportunities, while we eliminated other less profitable business opportunities.

On September 27, 2006, York exercised its right to have us issue it warrants in the amount of the loan and accrued interest and immediately exercised its option to convert the warrants into shares at $6.75 per share. This resulted in the issuance of approximately 10.6 million ordinary shares to York. As a result of the conversion, our liabilities were reduced by approximately $68.1 million, including approximately $1.0 million of accrued interest and net of the approximately $3.3 million of the unamortized balance representing the fair value of change in conversion feature. Our shareholders equity increased by the same amount. No profit or loss was recorded as a result of the conversion.

In December, 2006, we completed a public offering of 8,050,000 of our ordinary shares at a price to the public of $8.50 per share. Of such shares, 5,016,667 ordinary shares were sold by us and the remaining shares were sold by York. We received net proceeds of approximately $39.9 million from the offering.

General

The selected financial information as of December 31, 2006, December 31, 2005 and December 31, 2004 have been derived from our consolidated audited financial statements, which include all adjustments consisting of normal recurring accruals that we consider necessary for a fair presentation of the financial position and the results of operations for these periods. Our financial statements have been prepared in accordance with accounting principles generally accepted in the U.S.

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 a specific 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 on going basis, we evaluate our estimates, mainly related to account receivables, inventories, deferred charges, long-lived assets, restructuring charges, revenues, stock based compensation relating to options and contingencies. We base our estimates on historical experience and on various other 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 our unaudited consolidated financial information included in this prospectus:

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 , or SAB No. 104, 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 accepted 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 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 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 SFAS No. 13.

Deferred product revenue generally relates to acceptance provisions that have not been met, partial shipment or when the Company does not have VSOE of fair value on the undelivered items. In general, when deferred revenues are recognized as revenues, 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.

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. This provision is in addition to a small portion of general allowance which we have provided to cover additional potential exposures. 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. 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, Long-Lived Assets and Investment in Affiliated Companies. We periodically evaluate our intangible assets, long-lived assets and investments in affiliates for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses 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 five year forecast and cash flows, which is 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, 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.

Our investments in other companies are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable.

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.

Restructuring and Other Non-Recurring Charges. During fiscal year 2003, we recorded significant charges in connection with our restructuring plans. These restructuring charges include estimates pertaining to contractual obligations and primarily facilities-related operating leases. We estimated facility exit costs for certain under-utilized facilities and made assumptions regarding a sublessee s future rental rate, as well as the amount of time required to identify a sublessee. Such liabilities were recorded at fair value and are updated for any changes in fair value every period. Our restructuring charge would have been higher had we assumed a lower future rental rate or a longer period of time required to identify a sublessee.

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 for such proceedings is prescribed by the Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, or SFAS No. 5. SFAS No. 5 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 SFAS No. 5, 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 Statement of Financial Accounting Standard (SFAS) No. 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 SFAS 123(R) 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. Prior to the adoption of SFAS 123(R), 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 $3.8 million was recorded in 2006. As of December 31, 2006, there was $2.2 million of total unrecognized compensation cost 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 1.2 years.

Year ended December 31, 2006 Compared to Year ended December 31, 2005

Revenues. Revenues for the years ended December 31, 2006 and 2005 for our three business segments are as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Percentage change	Year Ended December 31, 2006	Year Ended December 31, 2005
	U.S. dollars in thousands			Percentage of revenues	
GNS					
Equipment	$ 118,147	$ 83,033	42.3%	47.5%	39.7%
Services	17,861	15,220	17.4%	7.2%	7.3%
	136,008	98,253	38.4%	54.7%	47.0%
Spacenet					
Equipment	24,312	15,424	57.6%	9.8%	7.4%
Services	69,311	70,772	(2.1)%	27.9%	33.8%
	93,623	86,196	8.6%	37.7%	41.2%
SRC					
Equipment	1,700	4,666	(63.6)%	0.7%	2.2%
Services	37,170	35,891	3.6%	14.9%	17.1%
	38,870	40,557	(4.2)%	15.6%	19.3%
Intercompany Adjustments					
Equipment	18,066	14,418	25.3%	7.3%	6.9%
Services	1,725	1,193	44.6%	0.7%	0.6%
	19,791	15,611	26.8%	8.0%	7.5%
Total					
Equipment	126,093	88,705	42.1%	50.7%	42.4%
Services	122,617	120,690	1.6%	49.3%	57.6%
Total	$ 248,710	$ 209,395	18.8%	100.0%	100.0%

The increase in our revenues in the year ended December 31, 2006 is principally attributable to increased equipment sales. GNS accounted for approximately $37.8 million of the increase, mainly due to government and universal service obligations, or USOs, projects in Latin America, Russia and Africa. The increase was in line with our business strategy to focus on expanding our solutions and services across the value chain by offering project implementation, turnkey solutions and value-added products and services. In addition, Spacenet accounted for approximately $7.4 million of the increase in revenues, mainly due to sales to lottery operators.

Intercompany adjustments reflect the elimination of sales by GNS to the other business segments.

Gross profit. The gross profit of our three business segments for the years ended December 31, 2006 and 2005 was as follows:

	Year Ended December 31,		Year Ended December 31,	
	2006	2005	2006	2005
	U.S. dollars in thousands		Percentage of revenues per segment	
GNS				
Equipment	$ 55,752	$ 42,148	47.2%	50.8%
Services	8,172	8,366	45.8%	55.0%
	63,924	50,514	47.0%	51.4%
Spacenet				
Equipment	3,218	1,404	13.2%	9.1%
Services	13,132	11,457	18.9%	16.2%
	16,350	12,861	17.5%	14.9%
SRC				
Equipment	1,555	3,913	91.5%	83.9%
Services	7,222	4,257	19.4%	11.9%
	8,777	8,170	22.6%	20.1%
Intercompany adjustments	1,314	4,631	6.6%	29.7%
Total Gross Profit	$ 90,365	$ 76,176	36.3%	36.4%

Our gross profit margin remained at approximately 36% for the years ended December 31, 2006 and 2005. Gross profit increased by approximately $14.2 million as a result of the increase in our revenues. Spacenet s gross margin increased from 14.9% in 2005 to 17.5% in 2006, mainly as a result of the increase in equipment sales to lottery operators and improved efficiency in our service costs as a result of integrating the operations of StarBand into those of Spacenet. GNS s gross profit increased by approximately $13.4 million, while the gross margin decreased, mainly due to an increase in the size of transactions and volume of VSATs which carry lower margins, and to a general downward pressure on prices in the industry. In addition, during 2006, we wrote-off approximately $1.2 million of excess inventory compared to approximately $0.6 million in 2005.

When reported by segment, the results of Spacenet and SRC are presented based upon 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, net. All of our research and development expenses are incurred by our GNS business segment. Our research and development expenses for the years ended December 31, 2006 and 2005 are as follows:

Year Ended December 31, 2006	2005	Percentage	Year Ended December 31, 2006	2005
U.S. dollars in thousands		change	Percentage of revenues per segment	

	Year Ended December 31,			Year Ended December 31,	
Expenses incurred	$ 15,687	$ 16,944	(7.4)%	11.5%	17.2%
Less - grants	2,045	2,950	(30.7)%	1.5%	3.0%
Total	$ 13,642	$ 13,994	(2.5)%	10.0%	14.2%

Net research and development costs decreased by approximately $0.4 million in the year ended December 31, 2006 compared to 2005. The decrease was mainly due to our sale of a wholly owned subsidiary, Deterministic Networks Inc., in September 2005 and a decrease in the level of depreciation and amortization, offset by the reduced amount of grants received from SES Global due to our completion of the research and development project performed on behalf of SES Global in 2005.

Selling and marketing expenses. The selling and marketing expenses of our three business segments for the years ended December 31, 2006 and 2005 are as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Percentage change	Year Ended December 31, 2006	Year Ended December 31, 2005
	U.S. dollars in thousands			Percentage of revenues per segment	
GNS	$ 24,984	$ 20,000	24.9%	18.4%	20.4%
Spacenet	9,403	9,668	(2.7)%	10.0%	11.2%
SRC	2,088	1,661	25.7%	5.4%	4.1%
Total	$ 36,475	$ 31,329	16.4%	14.7%	15.0%

Selling and marketing expenses increased by approximately $5.1 million in the year ended December 31, 2006, compared to 2005. This increase is attributable mainly to approximately $4.5 million of increased expenses associated with our increased revenues in 2006 and the adoption of SFAS 123(R) on January 1, 2006, resulting in non-cash compensation expenses of approximately $1.4 million. These increases were offset mainly by a reduction in other expenses in Spacenet s operations due to the operational merger of StarBand and Spacenet Inc in 2005.

General and administrative expenses. The general and administrative expenses of our three business segments for the years ended December 31, 2006 and 2005 are as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Percentage change	Year Ended December 31, 2006	Year Ended December 31, 2005
	U.S. dollars in thousands			Percentage of revenues per segment	
GNS	$ 11,314	$ 11,290	0.2%	8.3%	11.5%
Spacenet	9,528	11,493	(17.1)%	10.2%	13.3%
SRC	5,958	6,682	(10.8)%	15.3%	16.5%
Total	$ 26,800	$ 29,465	(9.1)%	10.8%	14.1%

General and administrative expenses decreased by approximately $2.7 million in 2006, compared to 2005. This decrease is attributable mainly to reduced administrative expenses of approximately $2.9 million in our Spacenet operations as a result of the operational merger of StarBand and Spacenet in 2005, reduced legal and professional fees of approximately $0.9 million and a reduction in depreciation and amortization expenses of approximately $0.8 million. These decreases were offset in part by the adoption of SFAS 123(R) on January 1, 2006, resulting in non-cash compensation expenses of approximately $2.0 million.

Financial expenses, net. In the year ended December 31, 2006, we had financial expenses of approximately $0.7 million, compared to approximately $2.7 million in 2005. The decrease in our financial expenses is mainly attributable to a $2.4 million increase in net interest income from bank deposits, due to an increase in Libor rates and increased cash balances, and a decrease in interest expenses on long-term loans in the amount of approximately $1.2 million, mainly due to the conversion of the convertible loan from York at the end of September 2006. This decrease in our financial expenses was offset in part by reduced interest income relating to a capital lease of approximately $0.8 million and approximately $0.5 million of amortization expenses related to the fair value of the modification of the conversion feature relating to the loan from York.

Taxes on income. Taxes on income in 2006 were approximately $2.4 million compared to approximately $3.1 million in 2005. The decrease is principally attributable to tax expenses recorded in 2005 in connection with a settlement with the Israeli Tax Authorities of approximately $1.2 million. Although our income before taxes increased, our tax expenses did not change materially because the increase in income was primarily attributable to reduced losses by some of our subsidiaries.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues. Revenues for the year ended December 31, 2005 and 2004 for our three business segments were as follows:

	Year Ended December 31,			Year Ended December 31,	
	2005	2004	Percentage	2005	2004
	U.S. dollars in thousands		change	Percentage of revenues	
GNS					
Equipment	$ 83,033	$ 98,282	(15.5)%	39.7%	40.7%
Services	15,220	20,066	(24.1)%	7.3%	8.3%
	98,253	118,348	(17.0)%	47%	49.0%
Spacenet					
Equipment	15,424	15,821	(2.5)%	7.4%	6.6%
Services	70,772	72,994	(3.0)%	33.8%	30.2%
	86,196	88,815	(2.9)%	41.2%	36.8%
SRC					
Equipment	4,666	1,711	172.7%	2.2%	0.7%
Services	35,891	50,532	(29.0)%	17.1%	20.9%
	40,557	52,243	(22.4)%	19.3%	21.6%
Intercompany Adjustments					
Equipment	14,418	15,692	(8.1)%	6.9%	6.5%
Services	1,193	2,216	(46.1)%	0.6%	0.9%
	15,611	17,908	(12.8)%	7.5%	7.4%
Total					
Equipment	88,705	100,122	(11.4)%	42.4%	41.5%
Services	120,690	141,376	(14.6)%	57.6%	58.5%
Total	$ 209,395	$ 241,498	(13.3)%	100.0%	100.0%

Revenues in 2005 were derived 42.4% from equipment and 57.6% from services. In 2004, our revenues were derived 41.5% from equipment and 58.5% from services. The decrease in service revenues in 2005 is attributed to the following factors: (i) a decrease of approximately $17 million in revenues from Spacenet Rural Communications as a result of the close of our operation of the GESAC network in Brazil which had a low operational margin, offset by an increase in subsidy and traffic revenues from the Compartel project in Colombia; and (ii) a decrease in the sale of services in our GNS operation. The decrease in equipment sales is attributed to: (a) an increased number of sales in 2005 which are comprised of transactions that include the provision of bundled equipment, solutions and services, which are recognized over the period in which services are provided; and (b) overall industry-wide price reductions.

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Gross profit. The gross profit of our three business segments for the years ended December 31, 2005 and 2004 was as follows:

	Year Ended December 31,		Year Ended December 31,	
	2005	2004	2005	2004
	U.S. dollars in thousands		Percentage of revenues per segment	
GNS				
Equipment	$ 42,148	$ 45,374	50.8%	46.2%
Services	8,366	11,581	55.0%	57.7%
	50,514	56,955	51.4%	48.1%
Spacenet				
Equipment	1,404	438	9.1%	2.8%
Services	11,457	9,899	16.2%	13.6%
	12,861	10,337	14.9%	11.6%
SRC				
Equipment	3,913	477	83.9%	27.9%
Services	4,257	1,568	11.9%	3.1%
	8,170	2,045	20.1%	3.9%
Intercompany Adjustments	4,631	7,766	29.7%	43.4%
Total Gross Profit	$ 76,176	$ 77,103	36.4%	31.9%

The increase in our gross profit margin from 31.9% in 2004 to 36.4% in 2005 can be attributed mainly to the following factors: (i) reduced operating expenses in our Spacenet Inc. operations, mainly relating to lower space segment expenses, the operational merger of StarBand and Spacenet Inc. and lower depreciation and amortization expenses; (ii) in Spacenet Rural Communications, since the GESAC project embedded a very low margin, the shut down of its operation increased our services gross margin; (iii) in our GNS segment, we experienced higher profit margins and decreased wages and overhead costs due to a reduction in headcount worldwide in 2005; and (iv) also in GNS, in 2004, we wrote off $2 million of excess inventory as part of our cost of goods sold compared to approximately $0.6 million in 2005.

When reported by segment, the results of Spacenet and Spacenet Rural Communications are presented based upon transfer prices. The consolidation line reflects the intercompany profits that have been realized in order to adjust the transfer price to our cost.

Research and Development Expenses:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Percentage change	Year Ended December 31, 2005	Year Ended December 31, 2004
	U.S. dollars in thousands			Percentage of revenues per segment	
GNS					
Expenses incurred	$ 16,944	$ 18,157	(6.7)%	17.2%	15.3%
Less - grants	2,950	5,255	(43.9)%	3.0%	4.4%
Total GNS	13,994	12,902	8.5%	14.2%	10.9%
Spacenet					
Expenses incurred	-	977	(100.0)%	-	1.1%
Less - grants	-	-	-	-	-
Total Spacenet	-	977	(100.0)%	-	1.1%
Total	$ 13,994	$ 13,879	0.8%	6.7%	5.7%

Net research and development costs increased slightly in 2005, primarily due to a lower amount of grants received from (a) SES Global, due to the completion of the research and development project performed on their behalf; and (b) the Office of the Chief Scientist, due to a decrease in their overall budget; offset by (i) the transfer of the remaining research and development operations from Spacenet Inc. to our GNS segment in Israel at the beginning of 2005, which eliminated research and development costs in Spacenet Inc. and did not significantly increase research and development costs in Israel; (ii) a decrease in the level of depreciation and amortization; and (iii) the sale of Deterministic Networks Inc. in September 2005.

Selling and marketing expenses. The selling and marketing expenses of our three business segments for the years ended December 31, 2005 and 2004 were as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Percentage change	Year Ended December 31, 2005	Year Ended December 31, 2004
	U.S. dollars in thousands			Percentage of revenues per segment	
GNS	$ 20,000	$ 22,408	(10.7)%	20.4%	18.9%
Spacenet	9,668	8,888	8.8%	9.8%	7.5%
SRC	1,661	1,986	(16.4)%	1.7%	1.7%
Total	$ 31,329	$ 33,282	(5.9)%	15.0%	13.8%

Selling and marketing expenses decreased by approximately $1.9 million in the year ended December 31, 2005, compared to 2004. This decrease was attributable mainly to reduced expenses associated with our decreased revenues in 2005.

General and administrative expenses. The general and administrative expenses of our three business segments for the year ended December 31, 2005 and 2004 were as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004	Percentage	Year Ended December 31, 2005	Year Ended December 31, 2004
	U.S. dollars in thousands		change	Percentage of revenues per segment	
GNS	$ 11,290	$ 13,911	(18.8)%	11.5%	11.8%
Spacenet	11,493	11,874	(3.2)%	11.7%	10.0%
SRC	6,682	10,579	(36.8)%	6.8%	8.9%
Total	$ 29,465	$ 36,364	(19.0)%	14.1%	15.1%

General and administrative expenses decreased by approximately $6.9 million in the year ended December 31, 2005, compared to 2004. This decrease is attributable mainly to having closed or reduced the size of certain regional offices in the amount of approximately $2.5 million, a reduction of lease expenses in an amount of $1.2 million due to increased subleasing of our premises in Israel, the completion of the GESAC project which resulted in layoffs and reduced expenses in an amount of approximately of $1.2 million, reduction in depreciation and amortization expenses of approximately $1.2 million and legal expenses of $0.6 million incurred in 2004 in connection with the emergence of StarBand from Chapter 11.

Financial expenses, net. In 2005, we had financial expenses of approximately $2.7 million compared to approximately $0.3 million in 2004. The sharp increase in our financial expenses is mainly attributed to (i) an increase in the LIBOR interest rate, to which some of our loans are linked; and (ii) the modification of the Bank Hapoalim loan in April 2004 which led to an increase in the overall financial expenses recorded in 2005

Taxes on income. Taxes on income decreased by approximately $1.3 million to approximately $3.1 million in 2005 compared to approximately $4.4 million in 2004, primarily due to a decrease in tax expenses in our Brazilian subsidiaries caused by a reduction of our activities in Brazil, offset by additional expenses recorded in connection with our Israeli tax settlement in 2005.

Equity in earnings of affiliated companies. Equity in earnings of affiliated companies was approximately $0.4 million in 2005, compared to approximately $1.2 million in 2004. The equity in earnings included the collection of amounts reserved in prior years.

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 software and add-on enhancements), 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 and software, which carry different 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 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.

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. 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, 2006, we had cash and cash equivalents of $149.5 million, short-term and long-term restricted cash of $11.5 million, short-term and long-term restricted cash held in trustees accounts of $22.8 million and short-term bank credits of $1.2 million. As of December 31, 2005, we had cash and cash equivalents of $74.9 million, short-term bank deposits of $3.3 million, short-term and long-term restricted cash of $22.5 million, short-term and long-term restricted cash held in trustees accounts of $20.3 million and short-term bank credits of $8.2 million.

The $22.8 million of restricted cash held in a trustee s accounts relates to funds collected from two of our large projects in Colombia, which are divided into seven different regions and contracts. The release of these funds from the trust is dependent both on a schedule of payments and on the achievement of operational milestones. However, in the event that we do not meet certain milestones, or if the bids are terminated unilaterally by the government of Colombia, we may be unable to receive this restricted cash.

As of December 31, 2006, our accumulated debt was approximately $45.2 million, comprised of long-term loans of $28.9 million and convertible subordinates notes of approximately $16.3 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.

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

	December 31,	
	2006	2005
	U.S. dollars in thousands	
Net cash provided by operating activities	$ 37,824	$ 3,290
Net cash provided by (used in) investing activities	8,312	(893)
Net cash provided by (used in) financing activities	28,169	(3,592)
Effect of exchange rate changes on cash and cash equivalents	311	353
Net increase (decrease) in cash and cash equivalents	74,616	(842)
Cash and cash equivalents at beginning of the period	74,929	75,771
Cash and cash equivalents at end of the period	$ 149,545	$ 74,929

Our cash and cash equivalents increased by $74.6 million during the year ended December 31, 2006 as a result of the following:

Operating activities. Cash provided by operating activities was approximately $37.8 million mainly due to an increase in other accounts payable and other long-term liabilities in the amount of $33.2 million mainly due to strong collections of advances from customers and growth in our deferred revenues and positive net cash flow provided by other operating activities in the amount of $16.4 million. The above was offset in part by an increase in inventories of approximately $11.8 million to support the higher demand for our products.

Investing activities. Cash provided by investing activities was approximately $8.3 million, mainly from net proceeds of restricted cash (including long-term) of approximately $11.1 million, proceeds from short-term bank deposits of approximately $3.3 million, proceeds from sale of property and equipment of approximately $1.6 million and net proceeds from loans to employees of approximately $0.3 million, net of purchase of property and equipment in the amount of approximately $6.5 million and a net investment in restricted cash held by trustees in the amount of approximately $1.6 million.

Financing activities. Cash provided by financing activities was approximately $28.2 million, primarily from proceeds of approximately $40.2 million from the offering completed in December 2006 and proceeds of approximately $3.6 million from the exercise of options, net of repayment of approximately $8.7 million of long-term loans and $7.0 million of short-term bank credits.

Our cash and cash equivalents decreased by $0.8 million during the year ended December 31, 2005 as a result of the following:

Operating activities. Cash provided by operating activities was approximately $3.3 million mainly from a decrease in other assets (short-term, long-term and deferred charges) of approximately $6.7 million and positive net cash flow provided by other operating activities in the amount of $6.5 million, net of an increase in inventories of approximately $5.2 million and a decrease of $4.7 million of accrued expenses.

Investing activities. Cash used in investing activities was approximately $0.9 million, mainly from net loans provided to employees of approximately $3.6 million, purchase of property and equipment approximately $3.6 million, investment in short-term bank deposits of approximately $3.3 million and net investment of restricted cash (including long-term) of approximately $0.8 million, net of net proceeds from restricted cash held by trustees of approximately $9.8 million and other investing activities of approximately $0.5 million.

Financing activities. Cash used in financing activities was approximately $3.6 million, mainly due to repayment of $8.8 million of long-term loans (including long-term convertible loan) net of an approximately $4.0 million increase in short-term bank credit and proceeds of $1.2 million from the exercise of options.

As of December 31, 2006, our short and long term obligations were as follows:

Contractual Obligations	**Payments due by period (in thousands)**				
	Total	**2007**	**2008-2009**	**2010-2011**	**2012 and after**
Long-term loans *	$ 28,855	$ 6,537	$ 8,644	$ 8,714	$ 4,960
Convertible subordinated notes	16,333	-	-	1,708	14,625
Accrued interest related to restructured debt (including $703 as short term accrued expenses)	3,850	703	1,306	1,256	585
Capital lease obligations	74	74	-	-	-
Operating lease	117,235	24,154	28,440	20,196	44,445
Other long-term debt	4,729	649	748	500	2,832
Total contractual cash obligations	$ 171,076	$ 32,117	$ 39,138	$ 32,374	$ 67,447

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

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, 2006, the aggregate amount of bank guarantees outstanding in order to secure our various performance obligations was approximately $12.2 million, comprised mainly of performance guarantees provided on behalf of our subsidiary in Peru, in an amount of approximately $7.6 million. We have restricted cash as collateral for these guarantees in an amount of approximately $4.0 million.

We have provided bank guarantees mainly for certain leases for our offices worldwide, which are secured by restricted cash in the amount of approximately $5.7 million.

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 U.S. dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation 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 2006, there was deflation in Israel of 0.1% and the NIS appreciated in relation to the U.S. dollar at a rate of 8.2%, from NIS 4.603 per $1 on December 31, 2005 to NIS 4.225 per $1 on December 31, 2006. In the period ending in December 31, 2005 inflation in Israel was 2.4% while the NIS depreciated in relation to the U.S. dollar at a rate of 6.8%. 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 2007, in order to limit these risks, we entered into a hedging agreement to cover certain of our 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 2006 and 2005. 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 2005 and in 2006, the 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 is to undergo staged reductions to 25% by the year 2010. In order to implement these reductions, the corporate tax rate is scheduled to decline from 31% in 2006, to 29% in 2007, 27% in 2008, and 26% in 2009. However, the effective tax rate payable by a company that derives income from an Approved 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 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, 2006, 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 the first six programs has expired and we do not expect substantial benefits from the other three programs. See ITEM 10: Additional Information Israeli Taxation.

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%, 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.

We anticipate that we will not have to pay taxes relating to 2007 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 and payments usually made in arrears for annual taxes in profitable years.

Research and Development

We devote significant resources to research and development projects designed to enhance our VSAT 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.

We devoted significant research and development resources in 2004, 2005 and 2006 to the development of our SkyEdge family of products. We develop our own network software and software for our VSATs. We generally license our software to customers as part of the sale of our network products and services. We also license certain third party software for use in our products.

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 software or hardware or obtain information that we regard as a trade secret in violation of our legal rights.

Third-Party Funding

In 2001, we entered into an agreement with the Chief Scientist for the early payment of all royalties arising from future sales with respect to previous Scientist grants we received. The Company recorded a one-time operating charge of $3.4 million. This amount was payable in semi-annual installments over a four-year period and has been repaid by us in full. This agreement enables us to participate in a program under which we are eligible to receive future research and development grants for generic research and development projects without any royalty repayment obligations.

In June 2003, we entered into two development agreements with SES Global which entitled us to an aggregate of $6 million for the development of certain ODU (outdoor unit) technology, all of which funding has been received.

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

	Years		
	2006	**2005**	**2004**
	(U.S. dollars in thousands)		
Gross research and development costs	$ 15,687	$ 16,944	$ 19,134
Less:			
Royalty-bearing grants	-	1,633	2,917
Non-royalty-bearing grants	2,045	1,317	2,338
Research and development costs - net	$ 13,642	$ 13,994	$ 13,879

Trend Information

In the past few years the satellite communications market has experienced increasing competition both from within its sector and from competing satellite 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. Further, many of the VSAT manufacturers have adopted certain standards for products, such as that known as DVB-RCS. If these standards become more accepted in the industry, it is likely that non-conforming products will be less attractive in the market. 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.

Impact of Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes , or FIN 48. FIN 48 creates a single model to address uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Financial Accounting Standards Board Statement No. 5, Accounting for Contingencies. FIN 48 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). FIN 48 applies to all tax positions related to income taxes subject to Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. This includes tax positions considered to be routine as well as those with a high degree of uncertainty. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. Our management is in the process of evaluating the possible impact of the adoption of FIN 48 on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Our management believes this standard will not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159, which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS No. 159 no later than January 1, 2008. We have not yet determined the effect that the adoption of SFAS No. 159 will have on our consolidated financial statements.

ITEM 6: DIRECTORS AND SENIOR MANAGEMENT

Directors

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

Name	Age	Position(s)
Amiram Levinberg	51	Chairman of the Board of Directors and Chief Executive Officer
Haim Benjamini (1)(2)	67	External Director
Jeremy Blank	28	Director
Ehud Ganani	54	Director
Leora Meridor (1)(2)	59	External Director
Karen Sarid (1)(2)	56	Director
Izhak Tamir (1)(2)	52	Director

(1) Member of our Compensation and Stock Option Committee.

(2) Member of our Audit Committee.

Amiram Levinberg co-founded our company and served as a director on our board since its inception and until April 2004. In July 2005, Mr. Levinberg rejoined our company as our Chairman of the Board and Chief Executive Officer. From July 1995 and until April 15, 2003, he served as our President. Until 2002, Mr. Levinberg also served as our Chief Operations Officer. Until July 1995, he served as our Vice President of Engineering. From 1977 to 1987, Mr. Levinberg served in a research and development unit of the Israel Defense Forces, where he managed a large research and development project. He was awarded the Israel Defense Award in 1988. Mr. Levinberg holds a B.Sc. in Electrical Engineering and Electronics and a M.Sc. degree in Digital Communications from Israel Institute of Technology, in Haifa, Israel, or the Technion. Mr. Levinberg serves on the board of directors of Cardboard Industries and Kargal, a cardboard manufacturer in Israel and serves on the board of Kasamba, an Internet company offering online professional expert advice.

Haim Benjamini has served on our board as an external director since February 2005. Mr. Benjamini currently serves as an advisor to Teva Pharmaceutical Industries Ltd. s CEO, board and management. He served as the Corporate Vice President of Human Resources of Teva from 1988 until December 31, 2004. From 1982 to 1988, Mr. Benjamini served as the Corporate Vice President of Human Resources at Scitex Corporation. Mr. Benjamini served as a guest lecturer at Tel Aviv University from 1997 to 2003 as part of the Masters of Arts program in Labor Studies. Mr. Benjamini holds a M.A. (Organizational Behavior) from the University of Chicago and a B.A (Social Sciences, Sociology and Political Science) from the Hebrew University. Mr. Benjamini is a Brigadier General (Ret) in the Israel Defense Forces and served in various command staff and training roles from 1957 until 1982.

Jeremy Blank has served on our board since July 2005. Mr. Blank is a senior advisor to York Capital Management. Previously, Mr. Blank served as a Vice President within York Capital Management. York is a private investment fund based in New York with approximately $8.5 billion in assets under management. From 1999 to 2004, Mr. Blank worked at Morgan Stanley as a vice president within Morgan Stanley s fixed income department and earlier, in Morgan Stanley s mergers and acquisitions department. Mr. Blank graduated from Yeshiva University in New York City with a Bachelor s degree in Finance.

Dr. Ehud Ganani has served on our board since July 2005. Dr. Ganani currently serves as Chairman of the boards of directors of the following companies, both in the security and defense markets: Trace Guard Technologies Inc., and DefenSoft Ltd. He served as the Chief Executive Officer of Israel Military Industries from 2002 to 2005. Prior to that he served in various senior positions in Rafael Armament Development Authority, the last of which was as Vice President of Marketing and Business Development from 1997 to 2002. Dr. Ganani holds a Doctorate of Science in chemical engineering from Washington University and a Bachelor of Science in Chemical Engineering from the Technion.

Dr. Leora (Rubin) Meridor has served on our board since August 2005. Dr. Meridor is a business and financial consultant and serves on the boards of Teva Pharmaceutical Industries Ltd. and Nice Systems. Between 2001 and 2004, Dr. Meridor served as chair of the board of Poalim Capital Markets Ltd. and between 2001 and 2005, as chair of the boards of directors of Bezeq International Ltd. and Walla! Communications Ltd. Between 1996 and 2000 she served as Senior Vice President, Head of Credit & Risk Management Division of the First International Bank. From 1992 to 1996 she served as Head of Research at the Bank of Israel. Dr. Meridor has a Ph.D in Economics, an M.Sc in Mathematics and B.Sc. in Mathematics and Physics, all from the Hebrew University in Jerusalem. Her studies include a post doctoral year at Massachusetts Institute of Technology.

Karen Sarid has served on our board since July 2005. Ms. Sarid currently serves as the chief operating officer and chief financial officer of Galil Medical Ltd. and as the general manager of Galil Israel. Galil Medical is a medical device company that develops a cryotherapy platform. Ms. Sarid has served as a General Manager of Orex Computed Radiography Ltd., a Kodak company focusing on advanced radiography systems for the digital x-ray market since September 2000 until March 2007. From September 1999 until September 2000, Ms. Sarid served as Chief Financial Officer and a member of the board of directors of Forsoft Ltd., a software solutions provider and a subsidiary of the Formula Group. From 1996 until August 1999, Ms. Sarid was Chief Financial Officer and a member of the board of directors of ESC Medical Systems Ltd., a medical laser manufacturer that is traded on the NASDAQ Stock Market. Ms. Sarid currently serves on the board of directors of LanOptics Ltd. and as chair of its audit committee. Ms Sarid also serves on the board of directors of Oridion Ltd. and Audiocodes Ltd. Ms. Sarid received a B.A. in Economics and Accounting from Haifa University, and was awarded the CFO of the Year award in 1998 by the Association of Chief Financial Officers in Israel.

Izhak Tamir has served on our board since July 2005. Mr. Tamir has been President and a Director of Orckit since its founding in 1990. Orckit Communications Ltd. is a leading provider of advanced telecom equipment targeting high capacity packetized broadband services. Mr. Tamir has served on the board of directors of Scopus Video Networks since 2005. From 1987 until 1989, Mr. Tamir was employed by Comstream Inc., in San Diego, California. From 1985 until 1987, he was Vice President of A.T. Communication Channels Ltd., a subsidiary of Bezeq. From 1978 to 1985, he was a senior engineer in the Israeli government. Mr. Tamir holds an engineering degree from the Technion, and an M.B.A. from Tel Aviv University. Mr. Tamir has been Chairman of the board of directors of Tikcro Technologies Ltd. since January 2000 and its Chief Executive Officer since August 2003.

Senior Management

The executive officers and key executives of our company and its subsidiaries are as follows:

Name	Age	Position(s)
Amiram Levinberg (1)	51	Chief Executive Officer and Chairman of the Board of Directors
Erez Antebi	47	Chief Executive Officer, Gilat Networks Systems
Rocio del Campo	43	President, Spacenet Rural Communications
Andreas Georghiou	57	Chief Executive Officer, Spacenet Inc.
Yoav Leibovitch	49	Executive Vice President, Corporate Development
Joshua Levinberg	52	Executive Vice President, Corporate Business Development & Strategy
Tal Payne	35	Chief Financial Officer

(1) Please see biography under Directors above.

Erez Antebi was appointed as Chief Executive Officer of Gilat Networks Systems on June 1, 2005. Prior to that time, Mr. Antebi served as our Chief Operating Officer from October 2002 until September 2003, when he left to serve as Chief Executive Officer of Clariton Networks Ltd. From the beginning of 1998 until being appointed our Chief Operating Officer, Mr. Antebi served as our Vice President, General Manager for Asia, Africa and Pacific Rim. From September 1994 until the beginning of 1998, he served as Vice President and General Manager of Gilat Inc. Mr. Antebi joined our company in May 1991 as product manager for the Skystar Advantage VSAT product. From August 1993 until August 1994, he served as Vice President of Engineering and Program Management of Gilat Inc. Prior to joining us, Mr. Antebi worked for a private importing business from 1989 to 1991, after having served from 1987 to 1989 as marketing manager for high frequency radio communications for Tadiran Limited, a defense electronics and telecommunications company, and as a radar systems development engineer at Rafael, the research and development and manufacturing arm of the Israel Defense Forces, from 1981 to 1987. Mr. Antebi holds a B.Sc. and an M.Sc. Electrical Engineering from the Technion.

Rocio del Carmen del Campo serves as President of Spacenet Rural Communications. Ms. Del Campo joined Gilat in 2000, as General Manager of our subsidiary in Peru. In 2003 she became General Manager for the Andean Region. Prior to Spacenet Rural Communications, Ms. Del Campo was General Manager of the Peru subsidiary of Acer (a technology company that developed computers and information technology, headquartered in Taiwan). Before this, Ms. Del Campo was an International Business Development Manager for INFOTEC (a software development company). Ms. Del Campo holds a B.S. in Industrial Engineering with a specialization in systems from the University of Lima, Peru

Andreas Georghiou joined Spacenet Inc. as its Chief Executive Officer in August 2006. Prior to joining Spacenet, Mr. Georghiou had been with SES Americom and its predecessor, GE Americom, for over 20 years in various leadership roles. Immediately preceding his assumption of CEO duties at Spacenet, Mr. Georghiou served as Chief Commercial Officer at SES Americom and, prior to that and through July 2005 he served as the Senior Vice President of Business Operations. From 2003 through July 2006, Mr. Georghiou also served as President of Americom Asia Pacific, a regional satellite venture of SES. From 1994 to 2003 he served as the Senior Vice President of Sales & Marketing for Global Satellite Services, and from 1992 to 1994 he served as the Director of Business Development. While at GE Americom, he also served as an officer of GE Capital. Prior to 1994, Mr. Georghiou held various positions at RCA Corporation including IT Manager, Director of Treasury Planning and Manager of Operations Research, at the David Sarnoff Research Center. Mr. Georghiou holds an undergraduate degree from the University of Pennsylvania, and a master s degree from the Wharton School of Business, where he studied as a Fulbright Scholar.

Yoav Leibovitch rejoined our company in his current position as Executive Vice President of Corporate Development in September 2005. Prior to rejoining us and during 2004, Mr. Leibovitch served as a consultant for business development in Kasamba Ltd. and assisted in the initial public offering of Scopus Ltd. Mr. Leibovitch first joined our company in early 1991 as Vice President of Finance and Administration and Chief Financial Officer, a position he held until December 2003. From 1989 to 1990, Mr. Leibovitch worked in the U.S. at Doubleday Books and Music Clubs, a subsidiary of Bertelsmann, A.G., as special advisor for new business development. From 1985 to 1989, he was the Chief Financial Officer of a partnership among Bertelsmann, A.G., a large German media and communications company; Clal Corporation, a major Israeli industrial holding company; and Yediot Aharonot, an Israeli daily newspaper. Mr. Leibovitch holds a B.A. (Economics and Accounting) and a M.B.A. (Finance and Banking) from the Hebrew University of Jerusalem. Mr. Leibovitch is a Certified Public Accountant in Israel.

Joshua Levinberg, a co-founder of Gilat, rejoined our company as Executive Vice President of Corporate Business Development & Strategy in August 2005. From June 1999 until 2003, he served as Senior Vice President for Business Development of our company, having previously served in that position from 1994 to April 1998. At that time, Mr. Levinberg became Chief Executive Officer of GTH LA Antilles, then the parent company of Global Village Telecom, or GVT, until June 1999. From 1989 until September 1994, he served as Executive Vice President and General Manager of Gilat Satellite Networks, Inc. in the U.S. From 1987 until the formation of Gilat Satellite Networks, Inc. in 1989, Mr. Levinberg was Vice President of Marketing & Business Development of our company. Mr. Levinberg holds a B.Sc. (Electrical Engineering and Electronics) from Tel Aviv University. Amiram Levinberg and Joshua Levinberg are brothers.

Tal Payne was appointed our Chief Financial Officer in May 2005. Before that, Ms. Payne served as our Vice President of Finance starting January 2004. Prior to that, Ms. Payne served as our Financial Director since July 1999. Prior to joining us, Ms. Payne, a CPA, was employed as a Manager for Kesselman & Kesselman, PriceWaterhouseCooper s Israel office from 1994 to 1999. She holds a B.A. in Economics and Accounting, as well as advanced studies in accounting from Tel Aviv University.

Compensation of Directors and Officers

The following table sets forth the aggregate compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2006:

	Salaries, Fees, Directors' Fees, Commissions and Bonuses(1)	Pension, Retirement and Similar Benefits
All directors and officers as a group (18 persons)	7,641,547	753,442

(1) Also includes bonuses and stock option compensation accrued in 2006.

Management Agreements

Prior to the closing of the transaction pursuant to which Bank Hapoalim assigned its loan to our company to York Capital Management, York, Bank Hapoalim and Mivtach Shamir Finance Ltd., paid $100,000 to a company controlled by Mr. Amiram Levinberg and his brother, Mr. Joshua Levinberg, to perform due diligence on our company. In addition, Mr. Amiram Levinberg has a right to certain benefits from options held by York in shares of our company owned by Bank Hapoalim. For further information on Mr. Levinberg s relationship with York, please see the Principal Shareholder table and the footnote on York.

Mr. Amiram Levinberg, our Chairman and Chief Executive Officer has a three year employment agreement with us which will terminate July 2008.Under this agreement, Mr. Levinberg is entitled to (i) a salary of 100,000 NIS per month; (ii) options to purchase 915,000 ordinary shares of our company; (iii) a transaction bonus equal to 0.82% of the market value of our company in a transaction or series of related transactions following which a company, person or a group of persons or companies acting together will purchase from our company s shareholders, in a bona fide, arms length transaction, 50% or more of our then outstanding share capital subject to Mr. Levinberg complying with certain prior conditions; and (iv) entitlement to participate in our company s annual bonus plan, subject to the specific approval of the shareholders.

Board Compensation

By resolutions adopted by our shareholders, directors who are not employees are entitled to receive annual compensation of $20,000 and an additional $300 for each board or committee meeting attended for up to four hours, and an additional $300 for each board or committee meeting which extends beyond four hours. In addition, board members are compensated for telephone participation in board and committee meetings in an amount of 50% of what would be received for physical attendance. Each current and future non-employee director is entitled to receive options to purchase 20,000 of our ordinary shares, which options vest over a three-year period, and are exercisable for so long as such optionee remains a director of our company.

Board Composition and Practices

Our Articles of Association as adopted at a shareholders meeting on April 15, 2003, provide that our board of directors shall consist of not less than five and not more than nine directors as shall be determined from time to time by a majority vote at the general meeting of our shareholders. Unless resolved otherwise by our shareholders, our board of directors will be comprised of (i) nine directors, if four directors are appointed by beneficial owners of 7% or more of our issued and outstanding ordinary shares (as set forth below), or (ii) seven directors, if fewer than four directors are so appointed by beneficial owners of 7% or more of our ordinary shares.

Pursuant to our Articles of Association, each beneficial owner of 7% or more of our issued and outstanding ordinary shares is entitled to appoint, at each annual general meeting of our shareholders, one member to our board of directors, provided that a total of not more than four directors are so appointed. In the event that more than four qualifying beneficial owners notify us that they desire to appoint a member to our board of directors, only the four shareholders beneficially owning the greatest number of shares shall each be entitled to appoint a member to our board of directors. So long as our ordinary shares are listed for trading on NASDAQ, we may require that any such appointed director qualify as an independent director as provided for in the NASDAQ rules then in effect. Our board of directors has the right to remove any such appointed director when the beneficial ownership of the shareholder who appointed such director falls below 7% of our ordinary shares.

Our Articles of Association provide that a majority of the voting power at the annual general meeting of our shareholders will elect the remaining members of the board of directors, including external directors as required under the Companies Law. At any annual general meeting at which directors are appointed pursuant to the preceding paragraph, the calculation of the vote of any beneficial owner who appointed a director pursuant to the preceding paragraph shall not take into consideration, for the purpose of electing the remaining directors, ordinary shares constituting 7% of our issued and outstanding ordinary shares held by such appointing beneficial owner.

Each of our directors (except external directors) serve, subject to early resignation or vacation of office in certain circumstances as set forth in our Articles of Association, until the adjournment of the next annual general meeting of our shareholders next following the general meeting in which such director was elected. The holders of a majority of the voting power represented at a general meeting of our shareholders in person or by proxy will be entitled to (i) remove any director(s), other than external directors and directors appointed by beneficial holders of 7% or more of our issued and outstanding ordinary shares as set forth above, (ii) elect directors instead of directors so removed, or (iii) fill any vacancy, however created, in the board of directors. Our board of directors may also appoint additional directors, whether to fill a vacancy or to expand the board of directors, who will serve until the next general meeting of our shareholders following such appointment.

Our Articles of Association further provide that the board of directors may delegate all of its powers to committees of the board of directors as it deems appropriate, subject to the provisions of applicable law.

Alternate Directors

Our Articles of Association provide that a director may appoint, by written notice to us and subject to the consent of the board of directors, any person qualified to serve as a director to serve as an alternate director (provided such person does not already serve as a director or an alternate director). An external director may not be appointed as an alternate director, unless otherwise permitted in the Companies Law. An alternate director shall have all of the rights and obligations of the director appointing him or her, except the power to appoint an alternate (unless otherwise specifically provided for in the appointment of such alternate). An alternate director may not act at any meeting at which the director appointing him or her is present and he is not entitled to remuneration. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment is effective for all purposes and for an indefinite time, but will expire upon the expiration of term or vacation of office of the appointing director. Currently, no alternate directors have been appointed.

External Directors

Under the Companies Law, public companies are required to elect two external directors who must meet specified standards of independence. Companies that are registered under the laws of Israel and whose shares are listed for trading on a stock exchange outside of Israel, such as Our company, are treated as public companies with respect to the external directors requirement. External directors may not have during the two years preceding their appointment, directly or indirectly through a relative, partner, employer or controlled entity, any affiliation with (i) the public company, (ii) those of its shareholders who are controlling shareholders at the time of appointment, or (iii) any entity controlled by the company or by its controlling shareholders. The term affiliation includes an employment relationship, a business or professional relationship maintained on a regular basis, control and services as an office holder. No person can serve as an external director if the person s other positions or business creates or may create conflicts of interest with the person s responsibilities as an external director. Until the lapse of two years from termination of office, a company may not engage an external director as an employee or otherwise.

External directors serve for a three-year term, which may be renewed for only one additionalthree-year term. External directors can be removed from office only by the court or by the same special percentage of shareholders that can elect them, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company. The court may additionally remove external directors from office if they were convicted of certain offenses by a non-Israeli court or are permanently unable to fulfill their position. If, when an external director is elected, all members of the board of directors of a company are of one gender, the external director to be elected must be of the other gender.

If delegated any authority of the board of directors, any committee of the board of directors must include at least one external director. An external director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

The Companies Law requires external directors to submit to the company, prior to the date of the notice of the general meeting convened to elect the external directors, a declaration stating their compliance with the requirements imposed by Companies Law for the office of external director. External Directors are required to have professional ability or financial and accounting expertise, as long as at least one of the External Directors is a financial and accounting expert.

The election of external directors requires the affirmative vote of a majority of our ordinary shares voted on in person or by proxy at a meeting of the shareholders, provided that such majority includes at least one-third of the votes of the non-controlling shareholders of the company who are voting on this matter at the meeting. This approval requirement need not be met if the aggregate shareholdings of those non-controlling shareholders who vote against the election of the external directors represent one percent or less of all the voting power of the company. Controlling for the purpose of this provision means the ability to direct the acts of the company. Any person holding one half or more of the voting power of the company or of the right to appoint directors or the chief executive officer is presumed to have control of the company.

Our external directors are Dr. Leora Meridor and Mr. Haim Benjamini. Dr. Meridor was elected at the Special General Meeting held on August 30, 2005, and Mr. Benjamini was elected at the Special General Meeting held on February 10, 2005.

Audit Committee

The Companies Law provides that publicly traded companies must appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company s business and approving related party transactions as required by law. An audit committee must consist of at least three members, and include all of the company s external directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which an approval was granted.

Pursuant to the current listing requirements of the NASDAQ Stock Market, we are required to maintain an audit committee, at least a majority of whose members are independent of management. Pursuant to the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission, or the SEC, has issued rules which required NASDAQ to impose independence requirements on each member of the audit committee. Such requirements came into effect July 31, 2005.

Presently, our audit committee consists of Mr. Benjamini, Dr. Meridor, Dr. Sarid and Mr. Tamir. We believe that these appointments comply with the requirements of the Companies Law and with the SEC and NASDAQ rules, and that Dr. Meridor qualifies to serve as the audit committee s financial expert, as required by the SEC and NASDAQ.

Independent Directors

Pursuant to the current listing requirements of the NASDAQ Global Market, we are required to have at least a majority of our directors on our board of directors qualify as independent. Effective March 3, 2005, NASDAQ revised the rules so that a foreign private issuer (such as our company) may follow home country practice in lieu of complying with this rule.

Based on representations from our current directors, we believe that all of our directors except Mr. Levinberg and Mr. Blank comply with the independence standards set forth above.

Employees

As of December 31, 2006, we had approximately 950 full-time employees, including 160 employees in engineering, research and development, 400 employees in manufacturing, operations and technical support, 130 employees in marketing and sales, 140 employees in administration and finance and 120 in other departments. Of these employees, 400 employees were based in our facilities in Israel, 235 were employed in the United States, 250 were employed in Latin America and 65 in Asia, the Far East and other parts of the world. We also utilize temporary employees, as necessary, to supplement our manufacturing and other capabilities. We believe that our relations with our employees are satisfactory.

As of December 31, 2005, we had approximately 929 full-time employees, including 151 employees in engineering, research and development, 384 employees in manufacturing, operations and technical support, 129 employees in marketing and sales, 146 employees in administration and finance and 119 in other departments. Of these employees, 387 employees were based in our facilities in Israel, 251 were employed in the United States, 235 were employed in Latin America and 62 in Asia, the Far East and other parts of the world.

As of December 31, 2004, we had approximately 980 full-time, including 159 employees in engineering, research and development, 363 employees in manufacturing, operations and technical support, 116 employees in marketing and sales, 109 employees in administration and finance and 95 in other departments. This figure also includes 130 employees from StarBand. Of these employees, 366 employees were based in our facilities in Israel, 183 were employed in the United States, 230 were employed in Latin America and 63 in Asia, the Far East and other parts of the world.

We and our employees are not parties to any collective bargaining agreements. However, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Manufacturers Association of Israel) are applicable to all Israeli employees by order of the Israeli Ministry of Labor and Welfare. These provisions principally concern the length of the work day and the work week, minimum wages for workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. Furthermore, pursuant to such provisions, the wages of most of our employees are automatically adjusted based on changes in the Israeli CPI. The amount and frequency of these adjustments are modified from time to time.

Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Our ongoing severance obligations are partially funded by making quarterly payments to approved severance funds or insurance policies, with the remainder accrued as a long-term liability in our consolidated financial statements. In addition, Israeli employees and employers are required to pay specified sums to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Since January 1, 1995, such amounts also include payments for national health insurance. The payments to the National Insurance Institute are approximately 16.31% of wages (up to a specified amount), of which the employee contributes approximately 64% and the employer contributes approximately 36%. The majority of our permanent employees are covered by life and pension insurance policies providing customary benefits to employees, including retirement and severance benefits. For Israeli employees, we contribute 13.33% to 15.83% (depending on the employee) of base wages to such plans and the permanent employees contribute 5% of base wages.

We have a number of savings plans in the United States that qualify under Section 401(k) of the U.S. Internal Revenue Code. Our U.S employees may contribute up to 100% of their pretax salary, but not more than statutory limits. We contribute one dollar for each dollar a participant contributes in this plan, in an amount of up to 3% of a participant s earnings and in addition, we contribute fifty cents for each dollar a participant voluntarily contributes in this plan, up to an additional 3% of a participant s earnings. Matching contributions in 2004, 2005 and 2006 for all the plans were $ 0.7 million, $ 0.7 million and $ 0.7 million, respectively. Matching contributions are invested in proportion to each participant s voluntary contributions in the investment options provided under the plan.

In January 2005, we provided certain Israeli employees with interest-free three-year loans in amounts equal to thirty or one-hundred percent (30-100%) of the amount of the severance compensation owing to them upon separation by us if their service is terminated without cause. The loans were provided as a benefit to certain employees and are secured by a contractual pledge over each respective employee s severance payment. Loans were granted to approximately 260 employees, none of whom are executive officers. The aggregate amount of loans granted to was approximately $4 million and the highest amount loaned to any single employee is approximately $130,000.

Share Ownership

See table under Item 7: Major Shareholders and Related Party Transactions below.

Stock Option Plans

In June 1995, we adopted the 1995 Stock Option Plan (Incentive and Restricted Stock Options), or the 1995 ISO/RSO Plan, the 1995 Section 102 Stock Option/Stock Purchase Plan, or the 1995 Section 102 Plan, and the 1995 Advisory Board Stock Option Plan, or the 1995 Advisory Board Plan. The 1995 Plans expired on June 29, 2005.

As of December 31, 2006, we had granted options to purchase a total of 129,760 ordinary shares under the 1995 Plans. The exercise prices for such options vary from $7.8 to $3,197.5 and all such options expire at various times from November 2003 to February 2013. As of December 31, 2005, a total of 41,963 options have been exercised under the 1995 Plan.

In September 2003, we adopted the 2003 Stock Option Plan (Incentive and Restricted Stock Options), or the 2003 ISO/RSO Plan and the Section 102 Stock Option Plan 2003, or the 2003 Section 102 Plan and collectively, the 2003 Plans . In February 2005, our shareholders increased the pool for the 2003 Plans by 1,135,000 shares and in December 2005, our shareholders further increased the pool by 3,500,000 shares, such that the 2003 Plans provide for the granting of options of up to an aggregate of 6,135,000 ordinary shares to our officers, directors, employees or service providers or any of the employees of service providers of our subsidiaries. As of December 31, 2006, options to purchase a total of 4,702,525 ordinary shares under the 2003 Plans were outstanding, and 734,437 shares were exercised.

The purpose of the 2003 Plans is to enable us to attract and retain qualified persons as employees, officers, directors, consultants and advisors and to motivate such persons by providing them with an equity participation in our company. The 2003 Section 102 Plan is designed to afford qualified optionees certain tax benefits under the Israel Income Tax Ordinance.

The 2003 Plans are administered by the Compensation/Stock Option Committee appointed by our board of directors. The Stock Option Committee, comprised of Dr. Meridor, Mr. Benjamini, Mr. Tamir and Dr. Sarid, has broad discretion, subject to certain limitations, to determine the persons entitled to receive options, the terms and conditions on which options or rights to purchase are granted and the number of shares subject thereto. The Stock Option Committee also has discretion to determine the nature of the consideration to be paid upon the exercise of an option and/or right to purchase granted under the 2003 Plans. Such consideration generally may consist of cash or, at the discretion of the Board, cash and a recourse promissory note.

Stock options issued as incentive stock options pursuant to the 2003 ISO/RSO Plan will only be granted to the employees (including directors and officers) of our company or its subsidiaries. The exercise price of incentive stock options issued pursuant to the 2003 ISO/RSO Plan must be at least equal to the fair market value of the ordinary shares as of the date of the grant (and, in the case of optionees who own more than 10% of the voting stock, the exercise price must equal at least 110% of the fair market value of the ordinary shares as of the date of the grant). Unless otherwise provided in an option agreement, the exercise price per share under options awarded pursuant to the 2003 Plans shall be the higher of (i) $5.00 per share; and (ii) the fair market value of the shares, as of the date of the option grant.

Options are exercisable and restrictions on disposition of shares lapse according to the terms of the individual agreements under which such options were granted or shares issued.

In December 2005, our shareholders adopted a new plan, the 2005 Stock Incentive Plan with a pool of 1.5 million shares. This plan is designed to enable the board of directors to determine various forms of incentives for all forms of service providers and, when necessary, adopt a Sub-plan in order to grant specific incentives. Among the incentives that may be adopted are share options, performance share awards, performance share unit awards, restructured shares, restricted share unit awards and other share based awards. To date, we have granted 50,000 options under this plan.

As of March 1, 2007**,** the 13 directors and executive officers listed above, as a group, held options to purchase 3,244,650 of our ordinary shares at a weighted average exercise price of $5.91 per share. Out of such options, 1,100 options expire in 2011, 850 expire in 2012, 154,000 options expire in 2013, 3,000 options expire in 2014 and 3,085,500 options expire in 2015.

ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares as of March 1 2007 (including options exercisable within 60 days of March 1, 2007) with respect to: (i) each person who is believed by us to be the beneficial owner of more than 5% of the ordinary shares; (ii) each director or officer who holds more than 1% of the ordinary shares, and (iii) all directors and officers as a group. Except where otherwise indicated, we believe, based on information furnished by the owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares, subject to any applicable community property laws. The shareholders listed below do not have any different voting rights from any other shareholders of our company, except to the extent that they hold more than 7% and as such, they will have a right to appoint a director, subject to certain conditions in our Articles of Association. None of the directors, officers or key executives listed in the Directors and Senior Management table appearing in Item 6 above, owns 1% or more of our outstanding share capital.

The information in this table is based on 38,848,252 ordinary shares outstanding as of March 1, 2007. Except where otherwise indicated, we believe, based on information furnished by the owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares, subject to any applicable community property laws.

Name and Address	Number of Ordinary Shares Beneficially Owned	Percent of Ordinary Shares Outstanding
York Capital Management[(1)(2)]	8,070,563	20.77
Mivtach Shamir Finance Ltd. [(3)]	2,216,945	5.71
All officers and directors as a group (13 persons)[(4)]	2,273,628	5.85

(1) Based on a Schedule 13D filed on December 20, 2006, the shares are directly owned by or allocated for the benefit of (i) York Capital Management, L.P., a Delaware limited partnership; (ii) York Investment Limited, a corporation established in the Commonwealth of the Bahamas; and (iii) York Credit Opportunities Fund, L.P., a Delaware limited partnership. These three entities are part of a family of pooled investment vehicles managed by JGD Management Corp., a Delaware corporation doing business as York Capital Management. The sole shareholder of JGD is James G. Dinan. Dinan Management is the general partner of York Capital Management L.P. and James G. Dinan and Daniel A. Schwartz are the controlling members of Dinan Management. York Offshore Limited is the investment manager of York Investment Limited. The controlling principal of York Offshore Limited is James G. Dinan. Daniel A. Schwartz is a director of York Offshore Limited. York Credit Opportunities Domestic Holdings is the general partner of York Credit Opportunities. James G. Dinan and Daniel A. Schwartz are the controlling members of York Credit Opportunities Domestic Holdings. The principal business address of each of these entities and individuals is c/o York Capital Management, 767 Fifth Avenue, 17th Floor, New York, New York, 10153.

(2) In addition to the shares held by York, Bank Hapoalim provided York with an option to purchase 1,000,809 shares at $6.30 per share for a period of two years beginning July 2005. York controls the option right but has agreed to participate in the upside of the option as follows: 35% to Bank Hapoalim, 16.68% to Mr. Amiram Levinberg, 11.66% to his brother, Mr. Joshua Levinberg, 21.66% to two other individuals and 15% remains with York. In addition, York has a proxy to vote 2,052,428 shares owned by Bank Hapoalim and an additional 1,250,000 owned by Mivtach Shamir Finance Ltd. until July 18, 2007.

(3) Based on a Schedule 13D filed on July 28, 2005. Mr. Meir Shamir and Ashtrom Industries Ltd. share voting and dispositive power with respect to the shares held by Mivtach Shamir Holdings Ltd. The address of Mivtach Shamir Holdings Ltd. is Beit Sharvat, 4 Kaufman St., Tel Aviv 68012, Israel.

(4) Includes all existing directors and executive officers in possession of options and/or shares as of March 1, 2007.

Significant Changes in the Ownership of Major Shareholders

As of January 1, 2004, our major shareholders were Bank Hapoalim, holding 3,302,428 shares (approximately 15% ownership), Eliezer Fishman, holding 2,996,259 shares (approximately 13% ownership) and Israel Discount Bank, holding 1,833,518 shares (approximately 8% ownership). As of December 31, 2004, our major shareholders were Bank Hapoalim, holding 3,302,428 shares (approximately 15% ownership) and Eliezer Fishman, holding 2,996,259 shares (approximately 10% ownership. As of December 31, 2005, our major shareholders were Bank Hapoalim, holding 2,052,428 shares (approximately 9% ownership), Eliezer Fishman, holding 2,112,523 shares (approximately 9% ownership), Mivtach Shamir Finance Ltd., holding 2,216,945 shares (approximately 10% ownership), Joseph Harrosh, holding 1,146,274 shares (approximately 9% ownership) and York, holding 3,302,428 shares (approximately 15% ownership). As of December 31, 2006, our major shareholders were York, holding 8,070,563 shares (approximately 20% ownership), Bank Hapoalim, holding 2,052,428 shares (approximately 5% ownership) and Mivtach Shamir Finance Ltd., holding 2,216,945 shares (approximately 6 % ownership).

Major Shareholders Voting Rights

The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

Record Holders

Based on a review of the information provided to us by our transfer agent, as of March 15**,** 2007, there were 92 holders of record of our ordinary shares, of which 70 record holders holding approximately 95.3% of our ordinary shares had registered addresses in the United States and 13 record holders holding approximately 4.66% of our ordinary shares had registered addresses in Israel. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees, including CEDE & Co., the nominee for the Depositary Company (the central depositary for the U.S. brokerage community), which held approximately 75% of our outstanding ordinary shares as of said date.

B. Related Party Transactions.

York Capital Management

In July 2005, Bank Hapoalim assigned a $71.4 million loan owed by the Company to the bank, to York Capital Management. In December 2005, we revised the terms of this loan. On September 27, 2006, York exercised its right to have the Company issue it warrants in the amount of the loan and accrued interest and immediately exercised its option to convert the warrants into shares at $6.75 per share. This resulted in the issuance of approximately 10.6 million ordinary shares to York. In December 2006, York participated as a selling shareholder in our public offering and sold 3,033,333 ordinary shares. Please see Item 5: Liquidity and Capital Resources Financing Activities.

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8: FINANCIAL INFORMATION

Consolidated Statements

See Item 18: Financial Statements.

Export Sales

Our primary manufacturing facilities are based in Israel. Most of our products are exported out of Israel. For information on our revenues breakdown for the past three years, see Item 5: Operating and Financial Review and Prospects.

Legal Proceedings

We are a party to various legal proceedings incident to our business. Except as noted below, there are no material legal proceedings pending or, to our knowledge, threatened against us or our subsidiaries, and we are not involved in any legal proceedings that our management believes, individually or in the aggregate, would have a material adverse effect on our business, financial condition or operating results.

In the first half of 2002, a number of securities class action lawsuits were filed against us and certain of our officers and directors in the United States District Court for the Eastern District of New York and in the United States District Court for the Eastern District of Virginia, and a request to file a class action lawsuit was filed in the Tel-Aviv, Israel District Court. The class action suits allege violations of the federal securities laws and claim that we issued material misrepresentations to the market. The class action suits in the U.S. have been consolidated into a single action in the United States District Court for the Eastern District of New York and an amended complaint has been filed In September 2005, the court rendered its decision to dismiss a number of the claims listed in the complaint. In June, 2006, following a successful mediation, the parties reached a settlement in the consolidated class action filed in the U.S. The entire amount due would be covered by the Company s insurance carriers. The settlement stipulates that the Company does not admit to any wrongdoing, fault or liability. The Company and the plaintiffs filed the settlement papers with the court on November 13, 2006, and preliminary approval hearings have been held. If the court preliminarily approves the proposed settlement, plaintiffs will provide notice to the class. After a period of time in which class members will be given a chance to raise any objections to or exclude themselves from the proposed settlement, the court will hold a final approval hearing to determine the fairness of the proposed settlement. We believe that the allegations against us and our officers and directors are without merit and we intend to contest them vigorously in any event that the proposed settlement is not concluded satisfactorily.

The Israeli court granted a motion to stay the proceedings of the Israeli action pending the outcome of the U.S. class action proceeding. We believe the allegations against us and our officers and directors in the class action suits are without merit and are contesting them vigorously.

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, and specifically the GESAC project, a government education project awarded to Gilat do Brazil, to Mobilcom for an unspecified amount. Gilat do Brasil does not believe that this claim has any merit and is vigorously defending itself against the claims presented therein.

The Brazilian tax authority has filed a claim against a subsidiary of Spacenet Inc. in Brazil, for alleged taxes due of approximately $4 million. 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 and at present, the subsidiary faces a payment of taxes in an amount of approximately $6.4 million (the amount has increased due to interest and the exchange rate of the Brazilian Reias). 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.

From time to time, we are notified of claims that we may be infringing patents, copyrights or other intellectual property rights owned by third parties. While we do not believe we are currently infringing any intellectual property rights of third parties, we cannot assure that other companies will not, in the future, pursue claims against us with respect to the alleged infringement of patents, copyrights or other intellectual property rights owned by third parties. In addition, litigation may be necessary to protect our intellectual property rights and trade secrets, to determine the validity of and scope of the propriety rights of others or to defend against third-party claims of invalidity. Any 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.

If any claims or actions are asserted against us, we may seek to obtain a license under a third party s intellectual property rights. We cannot assure, however, that a license will be available under terms that are acceptable to us, if at all. The failure to obtain a license under a patent or intellectual property right from a third party for technology used by us could cause us to incur substantial liabilities and to suspend the manufacture of the product covered by the patent or intellectual property right. In addition, we may be required to redesign our products to eliminate infringement if a license is not available. Such redesign, if possible, could result in substantial delays in marketing of products and in significant costs. In addition, should we decide to litigate such claims, such litigation could be extremely expensive and time consuming and could materially adversely affect our business, financial condition and operating results, regardless of the outcome of the litigation.

We are also a party to various regulatory proceedings incident to our business. To the knowledge of our management, none of such proceedings is material to us or to our subsidiaries.

Dividend Policy

We have never paid cash dividends on our ordinary shares and cannot anticipate paying any cash dividends in the foreseeable future. We have decided to reinvest permanently the amount of tax-exempt income derived from our Approved Enterprises and not to distribute such income as dividends. See notes 12 and 14 of the notes to consolidated financial statements included in this annual report on Form 20-F. We may only pay cash dividends in any fiscal year out of profits, as determined under Israeli law. In addition, the terms of some of our financing arrangements restrict us from paying dividends to our shareholders.

In the event we declare dividends in the future, we will pay those dividends in NIS. Because exchange rates between NIS and the dollar fluctuate continuously, a U.S. shareholder will be subject to currency fluctuation between the date when the dividends are declared and the date the dividends are paid.

Significant Changes

There have not been any significant changes since the date of our annual financial statements.

ITEM 9: THE OFFER AND LISTING

A. Offer and Listing Details

Annual Stock Information

The following table sets forth, for the periods indicated, the range of high and low closing sale price for the ordinary shares, as reported by NASDAQ. All of the reported prices have been adjusted to reflect a twenty for one share reverse stock split which became effective April 16, 2003.

	Price		Average Daily Trading Volume
	High	**Low**	
Year Ended December 31, 2002:	$ 115.40	$ 7.60	9,710
Year Ended December 31, 2003:	$ 8.80	$ 3.43	80,345
Year Ended December 31, 2004:	$ 9.40	$ 4.00	219,488
Year Ended December 31, 2005:			
First Quarter	$ 7.48	$ 5.73	88,311
Second Quarter	$ 7.13	$ 5.61	86,866
Third Quarter	$ 7.05	$ 5.87	76,683
Fourth Quarter	$ 6.56	$ 5.19	89,357

	Price				Average Daily Trading Volume
	High		Low		
Year Ended December 31, 2006:					
First Quarter	$	6.44	$	5.59	61,384
Second Quarter	$	8.37	$	5.96	82,938
Third Quarter	$	9.54	$	7.15	77,997
Fourth Quarter	$	10.01	$	8.37	142,675
Most Recent Six Months:					
September 2006	$	9.54	$	8.65	164,015
October 2006		10.01	$	8.54	107,014
November 2006	$	9.08	$	8.37	88,405
December 2006	$	9.26	$	8.45	238,885
January 2007	$	9.02	$	8.62	115,370
February 2007	$	9.74	$	8.29	175,110
March 2007 (through March 26)	$	8.38	$	7.89	209,906

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are quoted on the NASDAQ Global Market under the symbol GILT.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10: ADDITIONAL INFORMATION

Memorandum and Articles of Association

Registration and Purposes

Gilat Satellite Networks Ltd. is an Israeli company registered with the Israel companies register, registration No. 52-003893-6.

Under the Companies Law, a company may define its purposes as to engage in any lawful business and may broaden the scope of its purposes to the grant of reasonable donations for any proper charitable cause, even if the basis for any such donation is not dependent upon business considerations. Article 3A of our Articles of Association provides that our purpose is to engage in any business permitted by law and that we can also grant reasonable donations for any proper charitable cause.

Amendment of the Articles of Association

Under the Companies Law, a company may amend its articles of association by the affirmative vote of a majority of the shares voting and present at the general meeting of shareholders or by a different voting if so provided by the company s articles of association. Article 3 of our Articles of Association provides that the Articles of Association may be amended by a resolution approved by holders of a majority of the shares represented at a general meeting and voting on such resolution, if such amendment is recommended by the board of directors; in any other case, by a resolution approved by holders of at least 75% of the shares represented at a general meeting and voting on such resolution.