GILAT SATELLITE NETWORKS LTD
Form F-3
November 21, 2006

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As filed with the Securities and Exchange Commission on November 21, 2006

Registration No. 333-

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

FORM F-3
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

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

Israel (State or other jurisdiction of incorporation or organization)	**Not Applicable** (I.R.S. Employer Identification No.)

Amiram Levinberg, Chairman
Gilat Satellite Networks Ltd.
21 Yegia Kapayim Street
Kiryat Arye, Petah Tikva 49130 Israel
Tel: +972-3-925-2000
(Address and telephone number of Registrant's principal executive offices)

Gilat Satellite Networks Inc.
1750 Old Meadow Road
McLean VA 22102
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Attn: Legal Department
(Name, address and telephone number of agent for service)

Copies of all communications, including communications sent to agent for service, should be sent to:

Steven J. Glusband, Esq. Anna Maria Vistica, Esq. Karmit S. Galili, Esq. Carter Ledyard & Milburn LLP 2 Wall Street New York, NY 10005 Tel: 212-238-8605 Fax: 212-732-3232	Rael Kolevsohn, Adv. Rachel Prishkolnik, Adv. Gilat Satellite Networks Ltd. 21 Yegia Kapayim Street Kiryat Arye Petah Tikva 49130 Israel Tel: + 972-3-929-3020 Fax:+ 972-3-925-2945	Bruce Alan Mann, Esq. Andrew D. Thorpe, Esq. Morrison & Foerster LLP 425 Market Street San Francisco, CA 94105 Tel: 415-268-7584 Fax: 415-268-7522	Alon Sahar, Adv. Hanan O. Haviv, Adv. Herzog, Fox & Neeman Asia House 4 Weizmann Street Tel Aviv 64239 Israel Tel:+972-3-692-2020 Fax: + 972-3-696-6464

Approximate date of commencement of proposed sale to the public: As soon as practical after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per ordinary share(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee
Ordinary shares, par value NIS 0.20 per share	8,050,000	$8.65	$69,632,500	$7,450.68
Total				

(1) Estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, on the basis of the average high and the low prices ($8.60 and $8.70, respectively) of the Registrant's ordinary shares as quoted on the NASDAQ Global Market on November 17, 2006.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion) Dated November 21, 2006

7,000,000 Shares

Ordinary Shares

We are offering 4,666,667 ordinary shares and the selling shareholder is offering 2,333,333 ordinary shares. We will not receive any proceeds from the sale of shares by the selling shareholder. Our ordinary shares are traded on the NASDAQ Global Market and the Tel Aviv Stock Exchange under the symbol "GILT." On November 20, 2006, the last reported sale price of our ordinary shares as quoted on the NASDAQ Global Market was $8.72 and the last reported sale price of our ordinary shares on the Tel Aviv Stock Exchange was NIS 36.56.

Our business and an investment in our ordinary shares involve significant risks. These risks are described under the caption "Risk Factors" beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	***Total***
Public offering price	**$**	**$**
Underwriting discounts and commissions	**$**	**$**
Proceeds, before expenses, to us	**$**	**$**
Proceeds, before expenses, to the selling shareholder	**$**	**$**

The underwriters may also purchase up to an additional 350,000 shares from us and 700,000 shares from the selling shareholder at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

The underwriters expect to deliver the shares against payment in New York, New York on 2006.

Joint Bookrunning Managers

Cowen and Company

CIBC World Markets

William Blair & Company

C.E. Unterberg, Towbin

Oppenheimer & Co.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary provides an overview of selected information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our ordinary shares. You should carefully read the prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our ordinary shares, including the information discussed under "Risk Factors" beginning on page 7 and our financial statements and notes thereto that appear elsewhere in this prospectus. As used in this prospectus, the terms "we," "our," "us," "the Company" or "Gilat" refer to Gilat Satellite Networks Ltd. and its subsidiaries, taken as a whole, unless the context otherwise indicates. Unless otherwise stated, all the information in this prospectus assumes that the underwriters will not exercise their overallotment option.

Our Company

Overview

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 650,000 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, the VSAT equipment market generated approximately $750 million of revenues in 2004, which represented 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. We are the second-largest manufacturer of VSATs, with a 21% global market share of shipped VSATs according to COMSYS. We also provide industry specific VSAT equipment and solutions for cellular backhaul, governments, business continuity and disaster recovery. For the nine months ending September 30, 2006, we derived approximately 45% of our revenues from GNS. GNS's representative customers include StarOne in Brazil, Optus in Australia, China Unicom, Bharti in India, Telkom in South Africa and AT&T in Europe.

Spacenet Inc. provides satellite network services to enterprises, small office/home office, or SOHOs, and residential customers in the U.S. According to the COMSYS report, the overall VSAT service market generated approximately $3.9 billion of revenues in 2004, which represented 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 have a 20% market share of North American enterprise VSAT sites according to COMSYS. For the nine months ending September 30, 2006, we derived approximately 39% 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. For the nine-month period ending September 30, 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. For the nine-month period ending September 30, 2006, our revenues were equally generated from products and 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 September 30, 2006, we had a backlog of $217 million for equipment and multi-year service contracts. During the same period, we derived 38.1% of our revenues from the U.S., 30.8% from Latin America, 15.8% from Asia, 8.9% from Africa and 6.4% from Europe.

Our Competitive Strengths

Our competitive strengths include:

- Market leadership in large and growing markets
- Technology leadership
- Global presence and local support worldwide
- Complementary business lines
- Diversified revenue streams and customer base
- Strong financial position
- Experienced management team

Our Growth Strategy

Our growth strategy includes the following:

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. 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 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 services by expanding its offerings 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 require telecommunications operators to provide communications access or to subsidize the provision of these services. As these services are implemented, 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 support providers that are either required to provide services in the rural areas, or to service providers that are utilizing government subsidies. SRC is also focusing on expanding its services to additional emerging markets.

Focus on business continuity. We are addressing the growing market for 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, which enables near-instantaneous failover from a primary circuit to a 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 connectivity problems in many rural and remote locations. We plan to utilize our distribution channels, expertise and presence in rural areas to provide BWA solutions, which will complement our present product offerings. We also intend 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.

Corporate Information

We were incorporated in Israel in 1987. As of September 30, 2006, we had approximately 960 employees, including 160 persons engaged in research, development and engineering activities. Our corporate headquarters, executive offices, and research and development, engineering and manufacturing facilities are located at 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 49130, Israel, where our telephone number is +972-3-925-2000. Our U.S. subsidiary, Gilat Satellite Networks Inc., is located at 1750 Old Meadow Road, McLean, VA 22102, where its telephone number is 703-848-1000. Our Internet address is www.gilat.com. The information on our website is not incorporated by reference into this prospectus and should not be considered to be a part of this prospectus.

The name "Gilat®" and the names "Connexstar ," "SkyAbis ," "SkyEdge ," "Spacenet ," and "StarBand " appearing in this prospectus are trademarks of our company and its subsidiaries. Other trademarks appearing in this prospectus are owned by their respective holders.

The Offering

Ordinary shares offered by us	4,666,667 Shares
Ordinary shares offered by the selling shareholder	2,333,333 Shares
Ordinary shares to be outstanding after the offering[1]	38,433,165 Shares
Underwriters option to purchase additional shares from us and the selling shareholder	1,050,000 Shares
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $37.8 million, after deducting the underwriting discounts and commissions and estimated offering expenses. We intend to use the proceeds from this offering for general corporate purposes, including working capital. Although we have no present commitments or agreements to do so, we may also use a portion of the proceeds for the acquisition of, or investment in, companies, technologies or products that complement our business. We will not receive any proceeds from the sale of our ordinary shares by the selling shareholder.
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.
NASDAQ Global Market and Tel Aviv Stock Exchange symbol	GILT

(1) The number of our ordinary shares outstanding after this offering is based on the number of ordinary shares outstanding as of November 15, 2006 and does not include:

- 4,988,223 shares issuable upon exercise of stock options outstanding under our stock option plans existing as of November 15, 2006;
- 2,147,662 shares available for future grant or issuance pursuant to our employee stock purchase plans existing as of November 15, 2006;
- 867,117 shares issuable upon conversion of our convertible subordinated notes due in 2013; and
- 350,000 shares that may be issued by us to cover overallotments, if any.

Summary Consolidated Financial Data

The following table presents our summary consolidated financial data. The following summary consolidated financial data for the years ended December 31, 2005, 2004 and 2003 has been derived from our audited consolidated financial statements, and the summary consolidated financial data for the nine months ended September 30, 2006 and 2005 is derived from our unaudited consolidated financial statements, which in each case have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. You should read this information in conjunction with our historical financial information and other information included or incorporated by reference in this prospectus including "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes. Results for the nine months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year.

	Year Ended December 31,			Nine Months Ended September 30,	
	2005	**2004**	**2003**	**2006**	**2005**
				(unaudited)	**(unaudited)**
	(U.S. dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Products	$ 88,705	$ 100,122	$ 120,776	$ 91,782	$ 63,909
Services	120,690	141,376	69,401	91,572	89,528
	209,395	241,498	190,177	183,354	153,437
Cost of revenues:					
Products	42,896	50,703	81,994	48,226	29,684
Services	90,323	113,692	75,553	68,892	68,870
	133,219	164,395	157,547	117,118	98,554
Gross profit	76,176	77,103	32,630	66,236	54,883
Operating expenses:					
Research and development expenses, net	13,994	13,879	16,949	9,955	10,453
Selling and marketing expenses	31,322	33,282	31,264	26,458	22,986
General and administrative expenses	29,472	36,364	41,839	20,645	22,207
Impairment of goodwill			5,000		
Impairment of tangible and intangible assets		2,161	26,912		
Restructuring charges			3,905		
Operating income (loss)	1,388	(8,583)	(93,239)	9,178	(763)
Financial expenses, net	(2,677)	(266)	(3,256)	(1,554)	(1,856)
Gain from restructuring of debts			244,203		
Other income (expense)	299	(274)	954	5	140
Gain from write-off of investments in affiliated and other companies			3,300		
Income (loss) before taxes on income	(990)	(9,123)	151,962	7,629	(2,479)
Taxes on income	3,126	4,429	9,690	1,622	2,653
Income (loss) after taxes on income	(4,116)	(13,552)	142,272	6,007	(5,132)
Equity in earnings of affiliated companies	400	1,242	488		400
Minority interest in losses of a subsidiary		164	871		

	Year Ended December 31,			Nine Months Ended September 30,	
Income (loss) before cumulative effect of a change in an accounting principle	(3,716)	(12,146)	143,631	6,007	(4,732)
Gain from cumulative effect of a change in an accounting principle		611			
Net income (loss)	$ (3,716)	$ (11,535)	$ 143,631	$ 6,007	$ (4,732)

Earnings (loss) per share before cumulative effect of a change in an accounting principle					
Basic	$ (0.17)	$ (0.55)	$ 12.09	$ 0.26	$ (0.21)
Diluted	$ (0.17)	$ (0.55)	$ 11.31	$ 0.25	$ (0.21)
Basic and diluted net earnings (loss) per share from cumulative effect of a change in an accounting principle		0.03			
Net earnings (loss) per share:					
Basic	$ (0.17)	$ (0.52)	$ 12.09	$ 0.26	$ (0.21)
Diluted	$ (0.17)	$ (0.52)	$ 11.31	$ 0.25	$ (0.21)
Weighted average number of shares used in computing net earnings (loss) per share:					
Basic	22,440	22,242	11,881	22,940	22,401
Diluted	22,440	22,242	12,819	23,574	22,401

	As of September 30, 2006	
	Actual	**As Adjusted(1)**
	(unaudited)	**(unaudited)**
	(U.S. dollars in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 106,403	$ 144,168
Working capital	79,781	117,546
Total assets	403,292	441,057
Long-term debt(2)	45,759	45,759
Total liabilities	236,563	236,563
Shareholders' equity	$ 166,729	$ 204,494

(1) As adjusted to reflect our sale of 4,666,667 ordinary shares in this offering at an assumed offering price of $8.72 per ordinary share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, as if these events had occurred as of September 30, 2006.

(2) Includes current maturities of long-term loans, long-term loans and convertible subordinated notes.

RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should carefully consider the risks described below and all of the other information set forth in or incorporated by reference into this prospectus before deciding to invest in our ordinary shares. If any of the events or developments described below occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our ordinary shares could decline, and you could lose all or part of your investment in our ordinary shares.

Risks Relating to Our Business

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

We incurred a loss of approximately $100.6 million in 2003 (excluding the gain from restructuring of debt), a loss of approximately $11.5 million in 2004 and a loss of approximately $3.7 million in 2005. While we achieved net income of approximately $6.0 million in the nine months ended September 30, 2006, 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 $23 million as of September 30, 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 2005 and the first nine months of 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 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 Indonesia has led to a decrease in the value of the Indonesian Rupiah. If such decrease continues, this could adversely affect the ability of the Indonesian market to finance VSAT projects. We also face similar risks from potential or current political and economic instability in countries such as Russia, 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.

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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 this Offering and 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 upon the completion of this offering will likely limit your ability to influence corporate matters.

We anticipate that York Capital Management, or York, the selling shareholder under this prospectus, and our other current 5% or greater shareholders and entities affiliated with them will together beneficially own approximately 34% of our ordinary shares outstanding after this offering, or approximately 32% if the underwriters' overallotment option is exercised in full. As a result, these shareholders, acting together, will have 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, including those who purchase shares in this offering, 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.

The use of our net operating loss carryforwards may be limited.

The issuance of approximately 10.6 million ordinary shares to York in September 2006 and our sale of 4,666,667 ordinary shares in this public offering may result or be deemed to result in a change in control that could result in the limitation of Sections 382 of the Internal Revenue Code of 1986, as amended, on the use of our net operating loss. This limitation would allow us to use only a portion of the net operating loss carryforwards generated prior to the deemed Section 382 change of control to offset future taxable income, if any, for U.S. federal and state income tax purposes.

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, if and when we are profitable, which could harm our financial condition and results of operations. For additional information concerning Israeli taxation, please see the section in this prospectus captioned "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 are 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 and/or fines. 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 will be required to document and test our internal control procedures and our management will be required to assess and issue a report concerning our internal controls over financial reporting for our annual report on Form 20-F for the fiscal year ending December 31, 2006. 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. During the course of its testing, our management may identify material weaknesses or significant deficiencies, which may not be remedied in time to meet the deadline imposed by the Sarbanes-Oxley Act. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting or our auditors identify material weaknesses in our internal controls, investor confidence in our financial results may weaken, and our share price may suffer.

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.

Current 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.

NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated in it by reference contain forward-looking statements that involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as "may," "will," "should," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential" or the negative of such terms, or other comparable terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption Risk Factors and certain other matters discussed in this prospectus, the documents incorporated by reference in this prospectus, and other publicly available sources. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements.

MARKET DATA

This prospectus contains statistical data that we obtained from industry publications and reports. These publications generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. Although we believe the publications are reliable, we have not independently verified their data.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the ordinary shares offered by us will be approximately $37.8 million based on an assumed public offering price of $8.72 per share and after deducting underwriting discounts and commissions and estimated offering expenses.

We estimate that the net proceeds the selling shareholder will receive from the sale of the ordinary shares it is offering will be approximately $19.3 million, based on an assumed public offering price of $8.72 per share after deducting underwriting discounts and commissions. We will not receive any proceeds from the sale of ordinary shares by the selling shareholder.

We currently intend to use the net proceeds from this offering primarily to fund the development of our products and for general corporate purposes, including working capital, sales and marketing activities, research and development activities, general and administrative matters and capital expenditures. We may use a portion of the net proceeds for the acquisition of, or investment in, companies, technologies or products that complement our business. We have no present understandings, commitments or agreements to enter into any acquisitions or investments. Our management will have broad discretion over the use of the net proceeds in this offering. Pending these uses, we intend to invest the net proceeds of this offering in investment-grade interest-bearing securities.

PRICE RANGE OF OUR ORDINARY SHARES

Our ordinary shares are traded on the NASDAQ Global Market under the symbol "GILT" and on the Tel Aviv Stock Exchange. The following table summarizes the high and low closing sales prices for our ordinary shares on the NASDAQ Global Market for the periods indicated through November 20, 2006:

	High	Low
2006		
First Quarter	$ 6.44	$ 5.59
Second Quarter	8.37	5.96
Third Quarter	9.54	7.15
Fourth Quarter (through November 20, 2006)	10.01	8.37
2005		
First Quarter	$ 7.48	$ 5.73
Second Quarter	7.13	5.61
Third Quarter	7.05	5.87
Fourth Quarter	6.56	5.19
2004		
First Quarter	$ 9.40	$ 4.94
Second Quarter	9.38	5.10
Third Quarter	5.95	4.00
Fourth Quarter	6.55	5.45

On November 20, 2006, the last reported sale price of our ordinary shares on the NASDAQ Global Market was $8.72 and the last reported sale price of our ordinary shares on the Tel Aviv Stock Exchange was NIS ($36.56). As of November 20, 2006, there were approximately 95 holders of record of our ordinary shares.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our ordinary shares and we do not anticipate paying any cash dividends on our ordinary shares in the future. We currently intend to retain all future earnings to finance our operations and to expand our business. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including our operating results, future earnings, capital requirements, financial condition and future prospects and other factors our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our actual capitalization as of September 30, 2006 and as adjusted to give effect to the issuance by us of 4,666,667 ordinary shares and the application of the estimated net proceeds to be received by us after deducting underwriting discounts and commissions and estimated offering expenses payable by us as if these events had occurred as of September 30, 2006. You should read this table together with our consolidated financial statements and notes thereto contained in and incorporated by reference in this prospectus.

	As of September 30, 2006	
	Actual	**As Adjusted**
	(unaudited)	**(unaudited)**
	(U.S. dollars in thousands)	
Shareholders' equity:		
Ordinary shares of NIS 0.2 par value: Authorized-60,000,000 shares issued and outstanding-33,748,623 shares; issued and outstanding as adjusted-38,415,290 shares	$ 1,514	$ 1,731
Additional paid-in capital	812,850	850,398
Accumulated other comprehensive income	595	595
Accumulated deficit	(648,230)	(648,230)
Total shareholders' equity	$ 166,729	$ 204,494

SELECTED FINANCIAL DATA

The following table presents our selected financial information, which you should read in conjunction with, and is qualified in its entirety by reference to, our historical consolidated financial statements, the notes to those financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this prospectus and included in the documents incorporated by reference in this prospectus. The selected financial information set forth below as of and for the years ended December 31, 2005, 2004 and 2003 has been derived from our audited consolidated financial statements. The selected financial information as of and for the nine-month periods ended September 30, 2006 and 2005 has been derived from unaudited 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. Historical results are not necessarily indicative of future performance and partial year results are not necessarily indicative of full year results.

	Year Ended December 31,			Nine Months Ended September 30,	
	2005	2004	2003	2006	2005
				(unaudited)	(unaudited)
	(U.S. dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Products	$ 88,705	$ 100,122	$ 120,776	$ 91,782	$ 63,909
Services	120,690	141,376	69,401	91,572	89,528
	209,395	241,498	190,177	183,354	153,437
Cost of revenues:					
Products	42,896	50,703	81,994	48,226	29,684
Services	90,323	113,692	75,553	68,892	68,870
	133,219	164,395	157,547	117,118	98,554
Gross profit	76,176	77,103	32,630	66,236	54,883
Operating expenses:					
Research and development expenses, net	13,994	13,879	16,949	9,955	10,453
Selling and marketing expenses	31,322	33,282	31,264	26,458	22,986
General and administrative expenses	29,472	36,364	41,839	20,645	22,207
Impairment of goodwill			5,000		
Impairment of tangible and intangible assets		2,161	26,912		
Restructuring charges			3,905		
Operating income (loss)	1,388	(8,583)	(93,239)	9,178	(763)
Financial expenses, net	(2,677)	(266)	(3,256)	(1,554)	(1,856)
Gain from restructuring of debts			244,203		
Other income (expense)	299	(274)	954	5	140
Gain from write-off of investments in affiliated and other companies			3,300		
Income (loss) before taxes on income	(990)	(9,123)	151,962	7,629	(2,479)
Taxes on income	3,126	4,429	9,690	1,622	2,653
Income (loss) after taxes on income	(4,116)	(13,552)	142,272	6,007	(5,132)
Equity in earnings of affiliated companies	400	1,242	488		400
Minority interest in losses of a subsidiary		164	871		

	Year Ended December 31,			Nine Months Ended September 30,	
Income (loss) before cumulative effect of a change in an accounting principle	(3,716)	(12,146)	143,631	6,007	(4,732)
Gain from cumulative effect of a change in an accounting principle		611			
Net income (loss)	$ (3,716)	$ (11,535)	$ 143,631	$ 6,007	$ (4,732)

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Earnings (loss) per share before cumulative effect of a change in an accounting principle					
Basic	$ (0.17)	$ (0.55)	$ 12.09	$ 0.26	$ (0.21)
Diluted	$ (0.17)	$ (0.55)	$ 11.31	$ 0.25	$ (0.21)
Basic and diluted net earnings (loss) per share from cumulative effect of a change in an accounting principle		0.03			
Net earnings (loss) per share:					
Basic	$ (0.17)	$ (0.52)	$ 12.09	$ 0.26	$ (0.21)
Diluted	$ (0.17)	$ (0.52)	$ 11.31	$ 0.25	$ (0.21)
Weighted average number of shares used in computing net earnings (loss) per share:					
Basic	22,440	22,242	11,881	22,940	22,401
Diluted	22,440	22,242	12,819	23,574	22,401

	As of December 31,			As of September 30,
	2005	2004	2003	2006
				(unaudited)
	(U.S. dollars in thousands)			
Balance Sheet Data:				
Cash and cash equivalents	$ 74,929	$ 75,771	$ 51,781	$106,403
Working capital	70,207	67,750	74,490	79,781
Total assets	372,977	391,094	401,956	403,292
Long-term debt[(1)]	119,790	133,222	135,069	45,759
Total liabilities	287,479	309,673	322,609	236,563
Shareholders' equity	$ 85,498	$ 81,421	$ 76,401	$166,729

(1) Includes current maturities of long-term loans, current maturities of a long-term convertible loan from a related party, long-term loans, long-term convertible loan from a related party and convertible subordinated notes.

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

You should read the following discussion and analysis of financial condition and results of operations in conjunction with the "Selected Financial Data" and our interim consolidated financial statements and the related notes included elsewhere in this prospectus. In addition to historical information, the following discussion and analysis includes forward-looking information that involves risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this prospectus. See "Notice Regarding Forward-Looking Statements" included elsewhere in this prospectus.

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 650,000 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 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 the 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. Our revenues increased from $190 million in 2003 to $241 million in 2004 primarily due to a significant increase in service revenues, which increased by 103.7%. This increase was primarily attributable to an increase in Spacenet sales, the consolidation of StarBand revenues at the beginning of 2004 and a significant increase in our rural operations.

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 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. York is selling a portion of these shares in this offering pursuant to registration rights assigned to it by Bank Hapoalim. As a result of the conversion, our liabilities were reduced by approximately $68.1 million, including approximately $1.0 million accrued interest and net of approximately $3.3 million unamortized balance of 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.

Recent Developments

There have been no significant developments since September 30, 2006.

General

The selected financial information as of September 30, 2006 and for the nine-month periods ended September 30, 2005 and 2006 has been derived from our consolidated unaudited interim financial statements and the selected financial information as of December 31, 2005 has 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.

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