

GILAT SATELLITE NETWORKS LTD
Form 20-F
March 18, 2005

As filed with the Securities and Exchange Commission on March 17, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Commission file number: **0-21218**

GILAT SATELLITE NETWORKS LTD.

(Exact name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

Gilat House, 21 Yegia Kapayim Street, Kiryat Arve, Petah Tikva, 49130 Israel

(Address of principal executive offices)

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

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

Ordinary Shares, par value NIS 0.20 per share

(Title of class)

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

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

22,312,487 Ordinary Shares, NIS 0.20 par value per share.

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

Yes No

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

22,312,487 Ordinary Shares, NIS 0.20 par value per share.

INTRODUCTION

We are a leading provider of products and services for satellite-based communications networks. Beginning January 1, 2005, we operate under two business units: (i) Gilat Network Systems, often referred to as GNS, which is a provider of network systems and associated professional services to service providers and operators and (ii) Spacenet, which provides managed services for enterprises and businesses through our U.S. Subsidiary, Spacenet Inc., for consumers through our U.S. subsidiary, StarBand Communications Inc. and for rural communities through Spacenet Rural Communications. In its most recent available report published in September 2003, Comsys, a specialized consulting company that analyzes the satellite communications industry, reported that Gilat is the second-largest manufacturer of very small aperture terminals, referred to in the network communications industry as VSATs. We were incorporated in Israel in 1987 and are subject to the laws of the State of Israel. Gilat's corporate headquarters, executive offices and research and development, engineering and manufacturing facilities are located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 49130, Israel. Our telephone number is (972) 3-925-2000.

The name Gilat and the names TwoWay, OneWay, FaraWay™, DaillySurfer IP, SkyWay, Skydata®, SkyEdge™, Clearlink™, SkyBlaster™, Skystar Advantage® and StarBand appearing in this annual report on Form 20-F are trademarks of Gilat and its subsidiaries. GSAT® is a registered trademark of GTECH Corporation (GTECH). See Item 4: Information on the Company Products and Services. Other trademarks appearing in this annual report on Form 20-F are owned by their respective holders.

Except for the historical information contained in this annual report, the statements contained in this annual report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition and results of operations. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in Item 3: Key Information Risk Factors and elsewhere in this annual report.

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

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. All references in this annual report to dollars or \$ are to U.S. dollars and all references in this annual report to NIS are to New Israeli Shekels. The representative exchange rate between the NIS and the dollar as published by the Bank of Israel on March 16, 2005 was NIS 4.31 per \$1.00.

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

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

TABLE OF CONTENTS

	Page
Part I	
Item 1	Identity of Directors, Senior Management and Advisers
Item 2	Offer Statistics and Expected Timetable
Item 3	Key Information
	Selected Consolidated Financial Data
	Risk Factors
Item 4	Information on the Company
Item 5	Operating and Financial Review and Prospects
Item 6	Directors, Senior Management and Employees
Item 7	Major Shareholders and Related Party Transactions
Item 8	Financial Information
Item 9	The Offer and Listing
Item 10	Additional Information
Item 11	Quantitative and Qualitative Disclosures about Market Risk
Item 12	Description of Securities Other than Equity Securities
Part II	
Item 13	Defaults, Dividends, Arrearages and Delinquencies
Item 14	Material Modifications to the Rights of Security Holders and Use of Proceeds
Item 15	Controls and Procedures
Item 16	[Reserved]
Item 16A	Audit Committee Financial Expert
Item 16B	Code of Ethics
Item 16C	Principal Accountant Fees and Expenses
Item 16D	Exemptions from the Listing requirements and Standards for Audit Committee
Item 16E	Purchase of Equity Securities by the Issuer and Affiliates and Purchases
Part III	
Item 17	Financial Statements
Item 18	Financial Statements
Item 19	Exhibits

PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3: KEY INFORMATION

Selected Consolidated Financial Data

The selected consolidated statement of operations data set forth below for the years ended December 31, 2002, 2003 and 2004, and the selected consolidated balance sheet data as of December 31, 2003 and 2004 are derived from our audited consolidated financial statements that are included elsewhere in this Report. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles or U.S. GAAP.

The selected consolidated statement of operations data set forth below for the years ended December 31, 2000 and 2001 and the selected consolidated balance sheet data as of December 31, 2000, 2001 and 2002 are derived from our audited consolidated financial statements that are not included in this Report.

The selected consolidated financial data set forth below should be read in conjunction with Item 5: Operating and Financial Review and Prospects and the Consolidated Financial Statements and notes thereto included in Item 18 in this annual report on Form 20-F for the year ended December 31, 2004.

Edgar Filing: GILAT SATELLITE NETWORKS LTD - Form 20-F

	Year Ended December 31,				
	2000	2001	2002	2003	2004
STATEMENT OF OPERATIONS DATA:					
U.S. Dollars in thousands except per share data					
Revenues:					
Products	\$ 398,299	\$ 279,297	\$ 130,011	\$ 120,776	\$ 100,122
Services	106,263	106,732	78,744	69,401	141,376
	<u>504,562</u>	<u>386,029</u>	<u>208,755</u>	<u>190,177</u>	<u>241,498</u>
Cost of revenues:					
Products	265,259	194,374	73,182	75,560	52,184
Services	79,182	94,665	95,846	75,553	110,211
Write-off of inventories	-	59,790	20,107	6,434	2,000
	<u>344,441</u>	<u>348,829</u>	<u>189,135</u>	<u>157,547</u>	<u>164,395</u>
Gross profit	<u>160,121</u>	<u>37,200</u>	<u>19,620</u>	<u>32,630</u>	<u>77,103</u>
Research and development expenses, net	31,272	35,634	25,066	16,949	13,879
Selling, marketing, general and administrative expenses	82,444	121,486	86,227	71,720	69,174
Provision and write-off for doubtful accounts and capital lease receivables	3,654	134,614	34,714	1,383	717
Impairment of goodwill	-	50,580	13,049	5,000	-
Impairment of tangible and intangible assets	-	42,982	50,666	26,912	2,161
Restructuring charges	-	30,284	-	3,905	-
Gain from derecognition of liability	-	-	-	-	(245)
Operating income (loss)	42,751	(378,380)	(190,102)	(93,239)	(8,583)
Financial income (expenses), net	(1,289)	(21,334)	(21,324)	(3,256)	1,818
Gain from restructuring of debt	-	-	-	244,203	-
Other income (expense)	-	-	-	954	(274)
Write-off of investments in affiliated and other companies	(9,350)	(28,007)	(51,379)	3,300	-
Income (loss) before taxes on income	<u>32,112</u>	<u>(427,721)</u>	<u>(262,805)</u>	<u>151,962</u>	<u>(7,039)</u>
Taxes on income	2,003	974	929	9,690	4,429
Income (loss) after taxes on income	<u>30,109</u>	<u>(428,695)</u>	<u>(263,734)</u>	<u>142,272</u>	<u>(11,468)</u>
Equity in profits (losses) of affiliated companies	(950)	(252)	(29,334)	488	1,242
Acquired in-process research and development of an affiliated company	(10,000)	-	-	-	-
Minority interest in losses of a subsidiaries	276	5,889	3,517	871	164
Income (loss) from continuing operations, before cumulative effect of a change in an accounting principle	<u>19,435</u>	<u>(423,058)</u>	<u>(289,551)</u>	<u>143,631</u>	<u>(10,062)</u>
Gain (loss) from cumulative effect of a change in an accounting principle	-	-	(56,716)	-	611
Loss from discontinued operations	-	(6,054)	(1,937)	-	-
	<u>\$ 19,435</u>	<u>\$ (429,112)</u>	<u>\$ (348,204)</u>	<u>\$ 143,631</u>	<u>\$ (9,451)</u>

Edgar Filing: GILAT SATELLITE NETWORKS LTD - Form 20-F

Year Ended December 31,

Net income (loss)

Net earnings (loss) per share from continued operation:					
Basic	\$ 17.26	\$ (362.21)	\$ (245.59)	\$ 12.09	\$ (0.45)
Diluted	\$ 16.13	\$ (362.21)	\$ (245.59)	\$ 11.31	\$ (0.45)
Basic and diluted net loss per share from cumulative effect of a change in an accounting principle					
	-	-	\$ (48.10)	-	\$ (0.03)
Basic and diluted loss per share from discontinued operation					
	-	\$ (5.18)	\$ (1.64)	-	-
Net earnings (loss) per share:					
Basic	\$ 17.26	\$ (367.39)	\$ (295.33)	\$ 12.09	\$ (0.42)
Diluted	\$ 16.13	\$ (367.4)	\$ (295.33)	\$ 11.31	\$ (0.42)
Weighted average number of shares used in computing net earnings (loss) per share:					
Basic	1,126	1,168	1,179	11,881	22,242
Diluted	1,205	1,168	1,179	12,819	22,242

Edgar Filing: GILAT SATELLITE NETWORKS LTD - Form 20-F

As of December 31,

BALANCE SHEET DATA:	2000	2001	2002	2003	2004
(U.S. Dollars In thousands)					
Working capital	\$ 542,895	\$ 249,572	\$ 127,527	\$ 74,490	\$ 68,665
Total assets	1,252,332	858,623	474,214	401,956	391,448
Short-term bank credit and current maturities of long-term debt	14,819	29,888	10,023	4,770	13,028
Convertible subordinated notes	350,000	350,000	358,648	15,543	16,171
Other long-term liabilities	138,944	161,970	172,745	190,917	191,426
Shareholders' equity (deficiency)	\$ 608,655	\$ 177,320	\$ (172,915)	\$ 76,401	\$ 68,019

Risk Factors

Risks Related To Our Business

Beginning January 2005, we are operating our business under two business units. It is not yet certain that this change in operation will be efficient or successful.

Beginning January 1, 2005, we began to operate under two business units: Gilat Network Systems and Spacenet. This division was made as part of the Company's new growth strategy aiming to increase sales for solution driven markets as well as the expansion of its operation business. While the intention is to enable and encourage each business unit to enhance its business strategy, it is possible that the division will cause competition within our company and lead to confusion in the market. In addition, as part of the changes to operations structure, we closed our offices in Sunrise, Florida and reduced staff in other offices. We may therefore experience difficulties meeting a high demand for services in the future or encounter problems in dealing with the increased demands of customers.

We have incurred major losses in recent years and may never achieve profitability.

We incurred a loss of approximately \$348.2 million in 2002, a loss of approximately \$100.6 million in 2003 (excluding the gain from restructuring of debt) and a loss of approximately \$9.5 million in 2004. As of December 31, 2004, we had an accumulated deficit of approximately \$648.4 million. We cannot assure you that we can operate profitably in the future. If we do not achieve profitability, the viability of our company will be in question and our share price will likely decline.

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

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

Edgar Filing: GILAT SATELLITE NETWORKS LTD - Form 20-F

We have announced the introduction of the SkyEdge family of products and their acceptability in the market cannot be determined as of yet.

In February 2004, we announced the launch of the SkyEdge family of products. The SkyEdge product family includes a series of VSAT products, all able to operate via a single hub, supporting communications services that customers such as enterprises, carriers, service providers and governmental customers require, from interactive data to broadband IP, public telephony and beyond. The unified platform supports a variety of applications and topologies including mesh, star and multi-star.

We cannot guarantee that this family of products will be accepted in the industry or that its performance will be as expected. The SkyEdge family of products have been beta tested by several customers and is commercially available. If the SkyEdge is not accepted by the market, then our business, financial condition and operating results could be adversely affected. In addition, we intend on releasing a DVB-RCS compliant version of the SkyEdge this year. Satlabs, the European organization that is to issue the certification for this standard of compliance is still determining which criterion will be used to base the standard certification. There can be no assurance that once completed, our products will be certified.

We face risks from the global slowdown.

The downturn in the global economy has had significant effects on markets that we serve, particularly satellite communications equipment manufacturers and network operators. This has had a negative effect on our revenues. Although there are indications that the downturn may be ending, we cannot predict whether the markets will fully recover or the downturn will continue for a long period of time. If the markets in which we operate do not fully recover, our ability to increase or maintain our revenues and operating results may be impaired.

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

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

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

- 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