

GILAT SATELLITE NETWORKS LTD
Form 6-K
May 11, 2006

FORM 6 K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report on Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the Month of May 2006

Gilat Satellite Networks Ltd.

(Translation of Registrant's Name into English)

Gilat House, Yegia Kapayim Street
Daniv Park, Kiryat Arye, Petah Tikva, Israel
(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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Attached hereto is Registrant's press release dated May 10, 2006, announcing its results for the first quarter ending March 31, 2006.

This report on Form 6-K is being incorporated by reference into the Registration Statements on Form S-8 (Registration Nos. 333-132649, 333-123410, 333-113932, 333-08826, 333-10092, 333-12466 and 333-12988) and Form F-3 (Registration Nos. 333-113950 and 333-12698).

Signature

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

Gilat Satellite Networks Ltd.
(Registrant)

BY: /S/ Rachel Prishkolnik

Rachel Prishkolnik
Corporate Secretary

Dated: May 11, 2006

Gilat Announces First Quarter 2006 Results

Petah Tikva, Israel, May 10, 2006 Gilat Satellite Networks Ltd. (Nasdaq: GILT), a worldwide leader in satellite networking technology, solutions and services, today reported its results for the quarter ending March 31, 2006.

Commencing the first quarter of fiscal year 2006, Gilat implemented the Statement of Financial Accounting Standard No. 123(R) (SFAS 123(R)), Share-based Payments , which requires Gilat to expense the fair value of grants made under stock option programs over the vesting period of the options beginning on January 1, 2006. The expense is a non-cash transaction. Gilat will report its net income and earnings per share during 2006 on both Generally Accepted Accounting Principles (GAAP) and non-GAAP (which excludes the non-cash stock option expense) in order to provide meaningful period-to-period comparisons.

Revenues for the first quarter of 2006 were \$58.6 million, up from \$53.0 million in the comparable quarter of 2005. Net income for the first quarter of 2006 was \$1.2 million or \$0.05 per diluted share, up from a net loss of \$1.9 million or \$0.09 per diluted share in the comparable quarter of 2005.

Non-GAAP net income for the first quarter of 2006 was \$2.7 million, or \$0.12 per diluted share, up from a net loss of \$1.9 million or \$0.09 per diluted share in the comparable quarter of 2005. Non-GAAP EBITDA⁽³⁾ was \$8.7 million, up from \$4.7 million in the first quarter of 2005.

Gilat's Chief Executive Officer and Chairman of the Board Amiram Levinberg said, The first quarter was a strong quarter, with improvements across all key financial indicators and we remain on track in achieving our 2006 management financial objectives. Within our main markets of enterprise, government and rural communications, we have shown an increase in deals for larger networks and also maintain a steady flow of deals addressing smaller networks. We are also selling higher value solutions to our customers, and as such, continuing the implementation of our business strategy.

Recently Announced Agreements

Gilat combined its equipment and services to provide a satellite solution for the Mexican Ministry of Education s Enciclomedia project. Under this program, Gilat will be providing over 15,000 SkyEdge VSATs to approximately 33,000 classrooms for five out of eleven regions which have commenced implementation.

Six Continents Hotels, Inc. (SCH), a member of InterContinental Hotels Group, the world s largest hotel group by number of rooms, extended its enterprise network services contract with Gilat s Spacenet subsidiary through December 31, 2008. Spacenet serves more than 2,500 locations across the United States and Canada. SCH will also utilize Spacenet s SmartCare enterprise-grade managed network services.

China Satellite Communications Corp. (China Satcom) completed deployment of approximately 1,000 Gilat SkyEdge VSATs for rural telephony applications in Gansu Province and Inner Mongolia Autonomous Region. China Satcom is one of China s largest satellite operators and the network will fulfill its Universal Service Obligation (USO).

Gilat delivered a SkyEdge VSAT network to the Telecommunications Cooperative of Santa Cruz de la Sierra (COTAS), Bolivia s second-largest telecommunication operator. COTAS deployment of the network will fulfill its USO to meet the modern telecommunications requirements of rural communities.

About Gilat Satellite Networks Ltd.

Gilat Satellite Networks Ltd. (Nasdaq: GILT) is a leading provider of products and services for satellite-based communications networks. The Company operates under three business units: (i) Gilat Network Systems (GNS), which is a provider of network systems and associated professional services to service providers and operators worldwide; (ii) Spacenet Inc., which provides managed services in North America for businesses and governments through its Connexstar service brand and for consumers through its StarBand service brand; (iii) Spacenet Rural Communications, which offers rural telephony and Internet access solutions to remote areas primarily in Latin America.

Gilat was founded in 1987 and has shipped over 600,000 Very Small Aperture Terminals (VSATs) to more than 85 countries across six continents. Gilat's headquarters is located in Petah Tikva, Israel. The Company has 14 local offices and three service facilities worldwide. Gilat markets the SkyEdge Product Family which includes the SkyEdge Pro, SkyEdge IP, SkyEdge Call, SkyEdge DVB-RCS and SkyEdge Gateway. In addition, the Company markets numerous other legacy products. Visit Gilat at www.gilat.com.

Notes:

1) Certain statements made herein that are not historical are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. The words estimate, project, intend, expect, believe and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties. Many factors could cause the actual results, performance or achievements of Gilat to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, inability to maintain market acceptance to Gilat's products, inability to timely develop and introduce new technologies, products and applications, rapid changes in the market for Gilat's products, loss of market share and pressure on prices resulting from competition, introduction of competing products by other companies, inability to manage growth and expansion, loss of key OEM partners, inability to attract and retain qualified personnel, inability to protect the Company's proprietary technology and risks associated with Gilat's international operations and its location in Israel. For additional information regarding these and other risks and uncertainties associated with Gilat's business, reference is made to Gilat's reports filed from time to time with the Securities and Exchange Commission.

2) The attached summary financial statements were prepared in accordance with U.S. GAAP. The attached summary financial statements for Q1 2006 are unaudited. To supplement the consolidated financial statements presented in accordance with GAAP, the Company presents Gilat's net income, EBITDA and earnings per diluted share, before the share-based payment charge, which is the non-cash stock option expense. This non-GAAP presentation of net income, EBITDA and earnings per share is provided to enhance the understanding of the Company's historical financial performance and comparability between periods.

3) Operating income (loss) before depreciation, amortization, non cash stock option expenses as per SFAS 123(R) and exceptional items, (Non-GAAP EBITDA) is presented because it is a measure commonly used and is presented solely in order to improve the understanding of the Company's operating results and to provide further perspective on these results. Non-GAAP EBITDA, however, should not be considered as an alternative to operating income (loss) or net income (loss) for the period as an indicator of the operating performance of the Company. Similarly, Non-GAAP EBITDA should not be considered as an alternative to cash flows from operating activities as a measure of liquidity. Non-GAAP EBITDA is not a measure of financial performance under generally accepted accounting principles and may not be comparable to other similarly titled measures for other companies. Non-GAAP EBITDA may not be indicative of the historic operating results of the Company; nor is it meant to be predictive of potential future results. Reconciliation between the Company's Operating income (loss) and Non-GAAP EBITDA is presented in the attached summary financial statements.

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GILAT SATELLITE NETWORKS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
US dollars in thousands

| | <u>March 31,</u> | <u>December 31,</u> |
|--|-----------------------|-----------------------|
| | <u>2006</u> | <u>2005</u> |
| | <u>Unaudited</u> | <u>Unaudited</u> |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 76,886 | 74,929 |
| Short-term bank deposits | | 3,301 |
| Short-term restricted cash | 8,987 | 15,844 |
| Restricted cash held by trustees | 7,842 | 6,638 |
| Trade receivables (net of allowance for doubtful accounts) | 34,954 | 33,683 |
| Inventories | 25,150 | 23,253 |
| Other current assets | 29,230 | 27,215 |
| | <u>183,049</u> | <u>184,863</u> |
| LONG-TERM INVESTMENTS AND RECEIVABLES: | | |
| Long-term restricted cash | 7,108 | 6,699 |
| Long-term restricted cash held by trustees | 13,199 | 13,692 |
| Severance pay fund | 8,486 | 8,467 |
| Long-term trade receivables, receivables in respect of capital leases and other receivables | 22,615 | 22,757 |
| | <u>51,408</u> | <u>51,615</u> |
| PROPERTY AND EQUIPMENT, NET | <u>123,803</u> | <u>124,245</u> |
| INTANGIBLE ASSETS AND DEFERRED CHARGES, NET | <u>12,326</u> | <u>12,254</u> |
| TOTAL ASSETS | <u><u>370,586</u></u> | <u><u>372,977</u></u> |

GILAT SATELLITE NETWORKS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
US dollars in thousands

| | March 31, | December 31, |
|--|-------------------|-------------------|
| | 2006 | 2005 |
| | Unaudited | Unaudited |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term bank credit | 14 | 8,172 |
| Current maturities of long-term loans | 7,711 | 7,712 |
| Trade payables | 25,756 | 24,180 |
| Accrued expenses | 23,390 | 22,418 |
| Short-term advances from customer held by trustees | 15,353 | 15,502 |
| Other accounts payable | 36,640 | 36,672 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 108,864 | 114,656 |
| | <u> </u> | <u> </u> |
| LONG-TERM LIABILITIES: | | |
| Accrued severance pay | 8,833 | 8,396 |
| Long-term advances from customer held by trustees | 26,122 | 27,835 |
| Long-term loans, net | 28,467 | 29,143 |
| Long-term convertible loan from a related party, net | 66,763 | 66,602 |
| Accrued interest related to restructured debt | 3,829 | 3,850 |
| Other long-term liabilities | 22,304 | 20,657 |
| Excess of losses over investment in affiliates | | 7 |
| Convertible subordinated notes | 16,333 | 16,333 |
| | <u> </u> | <u> </u> |
| Total long-term liabilities | 172,651 | 172,823 |
| | <u> </u> | <u> </u> |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Share capital - Ordinary shares of NIS 0.2 par value | 998 | 995 |
| Additional paid in capital | 740,512 | 738,724 |
| Accumulated other comprehensive income | 578 | 16 |
| Accumulated deficit | (653,017) | (654,237) |
| | <u> </u> | <u> </u> |
| Total shareholders' equity | 89,071 | 85,498 |
| | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | 370,586 | 372,977 |
| | <u> </u> | <u> </u> |

GILAT SATELLITE NETWORKS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands (except per share data)

| | Three months ended March 31, | |
|--|------------------------------------|----------------|
| | 2006 | 2005 |
| | Unaudited | Unaudited |
| Revenues | 58,589 | 53,038 |
| Cost of Revenues | 36,873 | 35,159 |
| Gross profit | 21,716 | 17,879 |
| Research and development expenses: | | |
| Expenses incurred | 3,663 | 4,832 |
| Less - grants | 97 | 769 |
| | 3,566 | 4,063 |
| Selling, general and administrative expenses | 15,926 | 14,506 |
| Operating income (loss) | 2,224 | (690) |
| Financial expenses, net | (836) | (172) |
| Other income (expenses) | 24 | (159) |
| Income (loss) before taxes on income | 1,412 | (1,021) |
| Taxes on income | 192 | 1,321 |
| Income (loss) after taxes on income | 1,220 | (2,342) |
| Equity in earnings of affiliated companies | - | 400 |
| Net income (loss) | 1,220 | (1,942) |
| Basic net earnings (loss) per share | 0.05 | (0.09) |
| Diluted net earnings (loss) per share | 0.05 | (0.09) |
| Shares used in basic net earnings (loss) per share computation | 22,596 | 22,323 |
| Shares used in diluted net earnings (loss) per share computation | 22,783 | 22,323 |

GILAT SATELLITE NETWORKS LTD.
RECONCILIATION BETWEEN GAAP AND NON-GAAP STATEMENT OF INCOME
FOR COMPARATIVE PURPOSES
U.S. dollars in thousands (except per share data)

| | Three months ended March 31, 2006 | | |
|---|--------------------------------------|-----------------|---------------|
| | GAAP | Adjustments (1) | Non-GAAP |
| | Unaudited | Unaudited | Unaudited |
| Revenues | 58,589 | | 58,589 |
| Cost of Revenues | 36,873 | (64) | 36,809 |
| Gross profit | 21,716 | 64 | 21,780 |
| Research and development expenses: | | | |
| Expenses incurred | 3,663 | (56) | 3,607 |
| Less - grants | 97 | | 97 |
| | 3,566 | (56) | 3,510 |
| Selling, general and administrative expenses | 15,926 | (1,328) | 14,598 |
| Operating income | 2,224 | 1,448 | 3,672 |
| Financial expenses, net | (836) | | (836) |
| Other income | 24 | | 24 |
| Income before taxes on income | 1,412 | 1,448 | 2,860 |
| Taxes on income | 192 | | 192 |
| Income after taxes on income | 1,220 | 1,448 | 2,668 |
| Equity in earnings of affiliated companies | - | | - |
| Net income | 1,220 | 1,448 | 2,668 |
| Basic net earnings per share | 0.05 | 0.07 | 0.12 |
| Diluted net earnings per share | 0.05 | 0.07 | 0.12 |
| Shares used in basic net earnings per share computation | 22,596 | | 22,596 |
| Shares used in diluted net earnings per share computation | 22,783 | | 22,889 |

Three months ended
March 31, 2006

(1) Adjustments reflect the effect of non-cash stock options expenses as per SFAS123(R).

GILAT SATELLITE NETWORKS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
US dollars in thousands

| | Three months ended March 31, | |
|--|---------------------------------|----------------|
| | 2006 | 2005 |
| | Unaudited | Unaudited |
| <u>Cash flows from operating activities:</u> | | |
| Net income (loss) | 1,220 | (1,942) |
| Adjustments required to reconcile net income (loss) to net cash provided from (used in) operating activities: | | |
| Depreciation and amortization | 5,022 | 5,375 |
| Gain from disposal of a subsidiary | - | (98) |
| Stock compensation relating to options | 1,448 | 43 |
| Amortization of discount on debt | 161 | - |
| Equity in earnings of affiliated companies | - | (400) |
| Accrued severance pay, net | 417 | (292) |
| Interest accrued on short and long-term restricted cash | (78) | (161) |
| Exchange rate on long-term loans | 161 | (358) |
| Exchange differences on loans to employees | 134 | - |
| Capital loss from disposal of property and equipment | 42 | 258 |
| Deferred income taxes, net | (411) | (9) |
| Increase in trade receivables | (1,232) | (2,286) |
| Decrease (increase) in other assets (including short-term, long-term and deferred charges) | (1,766) | 2,742 |
| Decrease (increase) in inventories | (4,954) | 887 |
| Increase (decrease) in trade payables | 1,513 | (2,731) |
| Increase (decrease) in accrued expenses | 948 | (3,808) |
| Increase (decrease) in other accounts payable and other long-term liabilities | 1,631 | (519) |
| Decrease in advances from customer held by trustees (including long-term) | (1,862) | (1,824) |
| | <u>2,394</u> | <u>(5,123)</u> |
| Net cash provided from (used in) operating activities | 2,394 | (5,123) |

GILAT SATELLITE NETWORKS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
US dollars in thousands

| | Three months ended March 31, | |
|---|---------------------------------|----------------|
| | 2006 | 2005 |
| | Unaudited | Unaudited |
| Purchase of property and equipment | (1,219) | (1,316) |
| Proceeds from short-term bank deposits | 3,300 | - |
| Proceeds from disposal of property and equipment | - | 8 |
| Loans to employees - net | 74 | (3,752) |
| Investment in restricted cash held by trustee | (1,838) | (1,499) |
| Proceeds from restricted cash held by trustee | 1,205 | 4,483 |
| Investment in short-term and long-term restricted cash | (1,711) | (471) |
| Investment in other assets | (6) | (16) |
| Proceeds from short-term and long-term restricted cash | 8,161 | 1,736 |
| Net cash provided by (used in) investing activities | 7,966 | (827) |
| <u>Cash flows from financing activities:</u> | | |
| Exercise of options, net | 341 | 143 |
| Short-term bank credit, net | (8,158) | (755) |
| Repayment of long-term loans | (841) | (859) |
| Net cash used in financing activities | (8,658) | (1,471) |
| Effect of exchange rate changes on cash and cash equivalents | 255 | (14) |
| Increase (decrease) in cash and cash equivalents | 1,957 | (7,435) |
| Cash and cash equivalents at the beginning of the period | 74,929 | 75,771 |
| Cash and cash equivalents at the end of the period | 76,886 | 68,336 |

GILAT SATELLITE NETWORKS LTD.
CONDENSED NON-GAAP EBITDA
US dollars in thousands

| | Three months ended March 31, | |
|--------------------------------|---------------------------------|--------------|
| | 2006 | 2005 |
| | Unaudited | Unaudited |
| Operating income (loss) | 2,224 | (690) |
| Add: | | |
| Non-cash stock option expenses | 1,448 | |
| Depreciation and amortization | 5,022 | 5,375 |
| Non-GAAP EBITDA | 8,694 | 4,685 |