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Reason for Report:
Earnings Announcement

Changes	From (Previous)	To (Current)
Rating	—	Mkt Perform
Price Tgt	—	\$1.50
FY02E EPS	(\$1.02)	(\$2.01)
FY03E EPS	(\$0.40)	(\$0.88)
FY02E Rev (mil)	\$350.0	\$297.0
FY03E Rev (mil)	\$400.0	\$345.0

Price:	\$1.80
52-Wk Range:	\$15.40 - \$1.70
Price Target:	\$1.50
(0.10x FY03E Revenue)	
Shares Out (mil):	23.4
Market Cap (mil):	\$42
Avg Daily Vol (000):	200
Book Value/Share:	\$3.83
Cash Per Share:	\$2.02
Debt to Total Capital:	79%
Div (ann) - Yield:	N/A
Est LT EPS Growth	15%
P/E to LT Growth (2002):	NMF
Est Next Rep Date:	Early Aug. 2002
FY End:	Dec. 2002

Rev (mil)	2001	2002E	2003E
Mar	\$100.3	\$72.0A	—
Jun	\$118.3	\$70.0	—
Sep	\$81.4	\$75.0	—
Dec	\$89.0	\$80.0	—
FY	\$389.0	\$297.0	\$345.0
CY	\$389.0	\$297.0	\$345.0

FY RM	0.11x	0.14x	0.12x
CY RM	0.11x	0.14x	0.12x

EPS	2001	2002E	2003E
Mar	(\$2.51)	(\$0.55)A	—
Jun	(\$0.63)	(\$0.62)	—
Sep	(\$11.42)	(\$0.45)	—
Dec	(\$0.47)	(\$0.39)	—
FY	(\$15.03)	(\$2.01)	(\$0.88)
CY	(\$15.03)	(\$2.01)	(\$0.88)

FY P/E	NMF	NMF	NMF
CY P/E	NMF	NMF	NMF

Note: Excl. goodwill and other one-times.

Disclosures (see last page for details):

- (#) Market Maker
- (^) Beneficial Interest
- (>) Beneficial Interest/Pre-IPO
- (@) Underwriter
- (-) Employee/Director

Gilat Satellite Networks Ltd. (GILTF – \$1.80)

Market Perform

Volatility: High

Reducing Estimates Following Lower Guidance; Reiterate Market Perform

KEY POINTS:

- Yesterday, Gilat reported results below expectations. Sales of \$72.0 million and EPS of (\$0.55) were below management top-line guidance of \$80.0 million and our (\$0.53) estimate. With StarBand's future in doubt, the Company elected to take a \$78 million reserve, effectively removing the balance sheet exposure to this joint venture.
- The Company is seeing signs of strength in its 360E platform, particularly in the SOHO market for voice and data in the United States and Latin America. Separately, the Company had some nice wins in the period, including orders from new and existing customers. The pending European joint venture with SES and Alcatel is moving forward and will impact financials beginning in Q3.
- Despite some of the positives in the Gilat picture, cash flow, cash levels, and the high debt levels will likely plague the stock until something is done with the \$350 million in convertibles that remain a key overhang-- this is a top management priority. Due to lower sales as a result of StarBand issues, the current environment, and the European joint venture, which will effectively shift the current European operations to the JV, we are reducing our forecasts.

INVESTMENT RECOMMENDATION:

Despite some nice wins and traction in the SOHO market, we believe that investor focus will concentrate on what management attempts to right-the-ship through a change in organizational structure and business development. All eyes are turned on the status and outlook for StarBand, the \$350 million convertibles, required principal payments in Q3, and the European JV. As a result, we believe that the shares will continue to be under pressure until some of these issues are resolved. Our new estimates include sales of \$297.0 million in CY02, which reflect the shift in European consolidation of revenue, lack of contribution from StarBand, and somewhat difficult market conditions. Our new EPS forecast for FY02 is (\$2.01), compared with our previous estimate of (\$1.02), and accounts for the lower sales volume. Our new CY03 estimates include sales of \$345.0 million versus \$400.0 million previously, and an EPS forecast of (\$0.88) versus our earlier (\$0.40). It is possible that these estimates could change, especially with items below the operating line as changes in the convertibles occur. We rate these shares Market Perform with a target of \$1.50, or .1x CY03E revised revenue. This depressed target reflects our near-term caution, pending resolution with the key strategic issues outlined above.

COMPANY DESCRIPTION:

Gilat Satellite Networks Ltd. (#), with its global subsidiaries Spacenet Inc., Gilat Europe and Gilat Latin America, is a leading provider of telecommunications solutions based on Very Small Aperture Terminal (VSAT) satellite network technology. The Company provides satellite-based, end-to-end enterprise networking and rural telephony solutions to customers across six continents, and markets interactive broadband data services.

Gilat Satellite Networks Ltd.
Historical and Projected Income Statement
(\$ in thousands, except per share)

	2000	1Q01	2Q01	3Q01	4Q01	2001	1Q02A	2Q02	3Q02	4Q02	2002
Enterprise Core Business	406,103					-					-
Consumer Sales	98,444					-					-
Services Sales											
Total Revenue	\$ 504,562	\$ 100,300	\$ 118,341	\$ 81,360	\$ 89,028	\$ 389,029	\$ 72,047	\$ 70,000	\$ 75,000	\$ 80,000	\$ 297,047
Cost of Product Sales	228,978	-				-					-
Cost of Consumer Sales	105,295	-				-					-
Cost of Services Sales											
Total Cost of Sales	334,174	82,886	79,326	126,236	60,381	348,829	49,992	49,000	51,000	53,600	203,592
Cost of Sales Assoc. with Acq.	-	-	-	-	-	-	-	-	-	-	-
Gross Profit*	\$ 170,388	\$ 17,414	\$ 39,015	\$ (44,876)	\$ 28,647	\$ 40,200	\$ 22,055	\$ 21,000	\$ 24,000	\$ 26,400	\$ 93,455
SG&A	86,098	48,452	26,818	26,845	26,455	128,570	21,698	21,000	19,500	20,200	82,398
R&D, net	31,272	11,014	8,974	8,234	7,811	36,033	6,279	6,000	6,000	6,500	24,779
Acquired R&D	-	-	-	-	-	-	-	-	-	-	-
One-Time Charges	-	-	-	138,174	3,447	-	-	-	-	-	-
Restructuring Charges	-	9,994	-	-	-	-	-	-	-	-	-
Merger Expenses	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expense*	\$ 117,370	\$ 59,466	\$ 35,792	\$ 173,253	\$ 37,713	\$ 306,224	\$ 27,977	\$ 27,000	\$ 25,500	\$ 26,700	\$ 107,177
Operating Income*	\$ 53,018	\$ (42,052)	\$ 3,223	\$ (218,129)	\$ (9,066)	\$ (266,024)	\$ (5,922)	\$ (6,000)	\$ (1,500)	\$ (300)	\$ (13,722)
Financial & Other Expense (Income)	(1,407)	(2,605)	(10,595)	(4,410)	(3,170)	(20,780)	(4,868)	(5,500)	(5,500)	(5,500)	(21,368)
Restructuring Write-Off	-	-	(2,000)	(38,153)	(390)	(40,543)	-	-	-	-	-
Pretax Income*	\$ 51,611	\$ (44,657)	\$ (9,372)	\$ (260,692)	\$ (12,626)	\$ (327,347)	\$ (10,790)	\$ (11,500)	\$ (7,000)	\$ (5,800)	\$ (35,090)
Taxes	2,003	-	281	693	-	974	(367)	-	-	-	(367)
Share in Loss (Income) of Affiliate	1,787	(3,982)	(5,072)	(5,454)	1,711	(12,797)	(1,754)	(3,000)	(3,500)	(3,500)	(11,754)
Net Income*	\$ 47,821	\$ (48,639)	\$ (14,725)	\$ (266,839)	\$ (10,915)	\$ (341,118)	\$ (12,911)	\$ (14,500)	\$ (10,500)	\$ (9,300)	\$ (47,211)
Shares Outstanding	23,988	23,355	23,360	23,360	23,364	23,360	23,389	23,400	23,500	23,600	23,472
Fully Diluted Earnings per Share*	\$ 1.99	\$ (2.51)	\$ (0.63)	\$ (11.42)	\$ (0.47)	\$ (15.03)	\$ (0.55)	\$ (0.62)	\$ (0.45)	\$ (0.39)	\$ (2.01)

* excluding write-offs and acquisition-related costs

Margin Analysis (% of Tot Rev):

Enterprise Revenues	80%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Consumer Revenues	20%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Gross Margin	33.8%	17.4%	33.0%	(55.2%)	32.2%	10.3%	30.6%	30.0%	32.0%	33.0%	31.5%
S G & A	17.1%	48.3%	22.7%	33.0%	29.7%	33.0%	30.1%	30.0%	26.0%	25.3%	27.7%
R & D, net	6.2%	11.0%	7.6%	10.1%	8.8%	9.3%	8.7%	8.6%	8.0%	8.1%	8.3%
Operating Expense*	34.7%	59.3%	30.2%	212.9%	42.4%	78.7%	38.8%	38.6%	34.0%	33.4%	36.1%
Operating Margin*	10.5%	(41.9%)	2.7%	(268.1%)	(10.2%)	(68.4%)	(8.2%)	(8.6%)	(2.0%)	(0.4%)	(4.6%)
Financial & Other Income	(0.3%)	(2.6%)	(9.0%)	(5.4%)	(3.6%)	(5.3%)	(6.8%)	(7.9%)	(7.3%)	(6.9%)	(7.2%)
Pretax Margin*	10.2%	(44.5%)	(7.9%)	(320.4%)	(14.2%)	(84.1%)	(15.0%)	(16.4%)	(9.3%)	(7.3%)	(11.8%)
Tax Rate (% of Pretax Income)	0.0%	0.0%	(3.0%)	(0.3%)	0.0%	(0.3%)	3.4%	0.0%	0.0%	0.0%	1.0%
Net Margin*	9.5%	(48.5%)	(12.4%)	(328.0%)	(12.3%)	(87.7%)	(17.9%)	(20.7%)	(14.0%)	(11.6%)	(15.9%)

Growth Statistics:

Sequential:											
Total Revenue	NA	-42.6%	18.0%	-31.2%	9.4%	NA	-81.5%	-2.8%	7.1%	6.7%	NA
Year-over-Year:											
Total Revenue	49.3%	16.7%	9.0%	-39.9%	-49.0%	-22.9%	-39.1%	-14.0%	-15.8%	-79.4%	-23.6%
Gross Profit	13.5%	-48.0%	-0.9%	-201.2%	-46.1%	-76.4%	-43.5%	-146.8%	-16.2%	-34.3%	132.5%
SG&A	28.2%	151.4%	18.7%	25.7%	15.6%	49.3%	-19.1%	-21.8%	-26.3%	-84.3%	-35.9%
R&D, net	26.1%	53.8%	13.8%	3.0%	-5.0%	15.2%	-30.0%	-27.1%	-23.2%	-82.0%	-31.2%
Total Operating Expense	27.6%	125.0%	17.5%	490.1%	21.2%	160.9%	-21.8%	-84.4%	-32.4%	-91.3%	-65.0%
Operating Income	-8.9%	-693.5%	-63.8%	-1554.9%	-141.2%	-601.8%	-283.7%	-97.2%	-83.5%	-99.9%	-94.8%
Net Income	-18.1%	-846.2%	-261.5%	-1978.8%	-156.3%	-813.3%	-12.3%	-94.6%	-3.8%	-97.3%	-86.2%

Rating Definitions

Investment Opinion: investment opinions are based on each stock's return potential relative to the overall market*, not an absolute return.

- **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6 to 12 months. An identifiable catalyst is present to drive appreciation.
- **Outperform:** Expected to outperform the relevant broader market index over the next 12 to 18 months.
- **Market Perform:** Expected to perform in line with the relevant broader market index over the next 6 to 12 months.
- **Underperform:** Expected to underperform the relevant broader market index over the next 6 to 12 months.

* Broader market indices = Russell 2000 and S&P 500

Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, we are identifying the volatility of a particular stock.

- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this risk rating for the first 12 months of trading.

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