TECHNOLOGY BROADCAST
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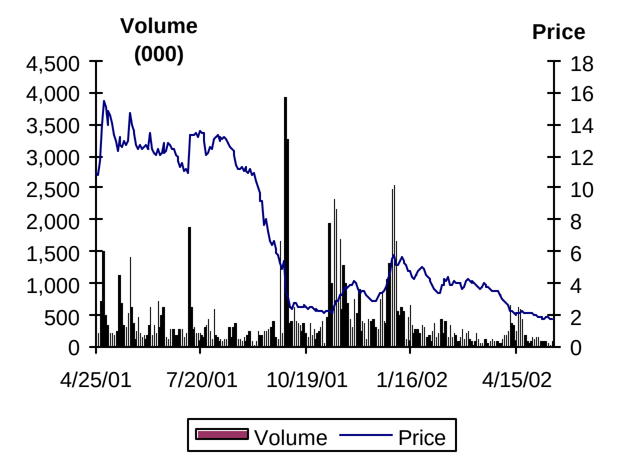
Gilat Satellite Networks Ltd.

First Quarter 2002 Results — Maintain Hold Rating

Gilat Satellite Networks Ltd. designs, develops, manufactures, markets and supports very small aperture terminal satellite stations and related hub equipment and software. The Company's products are incorporated into telecommunications networks that provide satellite-based communications between a central location and a large number of geographically dispersed sites.

Gilat Satellite Networks (Nasdaq: GILTF #)			
Price:	14-May-02		$1.80
Market Cap (million):			$42.12
Shares Outstanding (million):			23.40
52 Week Range:			$15.4 - $1.7
TL Liab./TL Assets:			79.30%
Book Value/Share:			$6.89
FY Dec	**Cash EPS**	**Previous**	**P/E (x)**
2001 A	($2.00)	--	NM
2002 E	($2.03)	($0.82)	NM
2Q01 A	($0.20)	--	
2Q02 E	($0.54)	($0.26)	



Key Points:

- On May 14th, 2002, Gilat Satellite Networks announced its financial results for 1Q02, with revenues of $72 million, 10% under our estimate and the consensus. Management has revised its FY02 outlook by approximately 15%.
- Gilat wrote down StarBand's $78 million debt (receivables) due to new financial and commercial relationships between StarBand and EchoStar (Nasdaq: DISH-$24.59), one of StarBand's shareholders.
- Operating expenses went down to $25 million, 15% below 4Q01 expenses, as part of management's comprehensive cost reduction.
- We are changing our financial model for 2Q02 and FY02 to reflect the lower revenues and expenses.
- We believe the $500 million in debt to be Gilat's major source of risk nowadays. During the quarter, there was no apparent progress in that area.
- Given all the above, we are maintaining our **HOLD** rating on GILTF shares.

Financial Discussion

Gilat's first quarter results demonstrates the continued deterioration of core business demand, on the one hand, and a successful restructuring "cost saving" plan, on the other hand. Management revised down its yearly outlook by approximately 15%.

Revenues

Revenues for the quarter were $72 million, 10% below our estimates. Management attributed the lower-than-expected revenues to the absence of StarBand revenue, and lower-than-expected revenue levels in Europe due to the transaction. We believe the problem is not so specific, but is rather due to soft demand in all the different markets.

Gilat did not break down its revenues (i.e., by application, geography, sales channels). However, we do believe that sales of its core business (VSATs) made up the majority of sales. Sales to "consumer markets" (StarBand and international) were neglected.

Management revised its guidance, again taking out the sales that have usually been generated in Europe, as well as sales from StarBand.

We have changed our model accordingly; we are now expecting FY02 revenues to be $300 million vs. $344 million in our previous model.

Gross Margin

Gross profit was $22.1 million or 30.6% of revenues, as opposed to 32.2% in 4Q01, and in line with our expectations.

Looking forward, we believe that gross margin will follow revenues, therefore we expect 30.5% gross margin in 2Q02 and an average of 31% for FY02.

Operating Expenses

Total operating expenses in the first quarter were $25.4 million, approximately 15% under the 4Q01 level, and about 27% under the 3Q01 level, when Gilat started its restructuring plan. The pro forma operating loss of $3.4 million does not include rStar's operation expenses of $2.5 million.

Following the dramatic revenue decline during 3Q01, Gilat's management committed to take serious steps and implement a comprehensive restructuring plan. Now, two quarters ahead, operation expenses are down to the expected level of $25 million a quarter.

Net Income

The pro forma net loss for the quarter was $12.9 million or a $0.55 loss per share. The pro forma and the US GAAP results are similar in the net income item. The main difference is $2 million in the SG&A item, which reflects rStar's expenses.

At this point we expect the Company to achieve a net loss of $0.54 in 2Q02 (vs. $0.26 in our previous model) and a $2.03 per share loss for the year (vs. an $0.82 per share loss in our previous model).

Balance Sheet

Gilat ended 1Q02 with cash of $102 million. During the quarter, Gilat used $21 million, compared to $3.8 in 4Q01 and was two times greater than management's former guidance.

Inventory in the fourth quarter declined by $7 million to $115 million, and trade account receivables declined by only $3 million ($29 million QoQ as a result of StarBand's receivables write-down). DSO for the quarter was 130 days.

Gilat wrote down all its exposure to StarBand trade at a total of $78 million. Gilat wrote down StarBand's $78 million debt (receivables) due to new financial and commercial relationships between StarBand and EchoStar, one of its shareholders.

Quarter Highlights

During 4Q01 conference call, management noted that more win announcements are expected. Accordingly, a couple of weeks later, Gilat announced that its subsidiary, Spacenet, had been selected by BASF Corporation (NYSE: BF-$43.05) to provide a satellite communications network to serve up to 3,000 agricultural retailers, based on the Company's 360E VSAT platform. Moving further into the quarter, Gilat announced another win with Tata Teleservices to provide Gilat's DialAw@y product for rural satellite telephony. The agreement includes 1,000 VSAT units.

Gilat has also announced an interesting agreement with Telesat to launch a satellite base Internet service in the US and Canada, which would be Gilat's first initiative in North America following StarBand's inability to gain momentum.

On April 8th, Gilat passed an important milestone, in our opinion, on the road to revenue growth through M360 sales. Gilat and SES Global together with Alcatel Space, a subsidiary of Alcatel (NYSE: ALA-$12.73), established a new satellite services company based on the equipment, knowledge and services agreements of "Gilat Europe," which was sold by Gilat to the new entity. Gilat is expected to get $40 million over the next couple of years. The new company will provide service providers such as Tiscaly and BT Openwave the hubs and terminals as well as transponder capacity. Alcatel Space is expected to join the new company following regulatory approvals. At this point, Alcatel is expected to dilute SES and Gilat to 40% each of the Company's shares.

Since March 5th, several US law firms filed charges against Gilat on behalf of purchasers of the Company's securities due to alleged violations of Federal securities laws.

On the financial release, Gilat wrote down StarBand's $78 million debt (receivables) due to new financial and commercial relationships between StarBand and EchoStar, one of its shareholders. We find this new situation rather disturbing because, although we do not think Gilat intends to start financing StarBand, the issue seems to keep coming back.

Recommendation

After the relatively strong fourth quarter, we believe the first quarter results again raise a question mark regarding Gilat's business recovery.

After reviewing the new data from Gilat's first quarter results and the conference call, which followed, we come up with several conclusions:

- Concerning the top line, the fact that management has chosen to revise the entire year leads us to believe that the problem is more complicated than what was alluded to during the conference call.

- On the expenses side, Gilat managed to reduce its operation expenses considerably, but this was an inevitable reaction to the new situation, in our view.

- We remain alarmed regarding Gilat's balance sheet, which is still impossible to assess. This quarter, two questions were brought up regarding the assets side: one concerns the GVT note, which can't be collected, and the other is StarBand's $78 million receivable, which eventually was written down. Another disturbing issue is the cash consumption, which was significantly higher than management's guidance.

- However, we believe the $500 million in debt to be Gilat's major source of risk nowadays. On the conference call, management noted that the debt issue is a top priority and many efforts are being taken to find a solution. But even given that Gilat will probably act fast and come up with a proposed solution in the near future, the timeframe is hard to predict.

- All in all, while the large debt problem is far from being solved, Gilat's operations figures are not encouraging.

Therefore, we are maintaining our **HOLD** rating on GILTF shares.

Gilat Satellite Networks Ltd. -- Income Statement Model

($ millions, except per share data)	1Q01A	2Q01A	3Q01A	4Q01A	2001A	1Q02A	2Q02E	3Q02E	4Q02E	2002E
Revenues	100.3	118.3	81.4	89.03	389.0	72.0	73.5	76.1	78.7	300.3
Cost of revenues	82.9	79.3	53.9	60.4	276.5	50.0	51.1	52.5	53.5	207.1
Gross profit (loss)	17.4	39.0	25.1	28.6	110.1	22.1	22.4	23.6	25.2	93.2
Research and development costs:										
Expenses incurred	12.9	11.3	10.2	9.6	43.9	7.4	7.5	7.5	7.5	29.9
Grants	1.9	2.3	2.0	2.2	8.4	1.3	1.5	1.5	1.5	5.8
Net research and development costs	11.0	9.0	8.2	7.4	35.6	6.1	6.0	6.0	6.0	24.1
Selling, general and administrative exp	48.5	26.8	26.8	22.5	124.6	19.4	19.0	19.0	19.0	76.4
Restructuring charges	10.0									
Total operating expenses	69.5	35.8	35.0	30.0	170.2	25.4	25.0	25.0	25.0	100.4
Operating income (loss)	(52.0)	3.2	(9.9)	(1.3)	(60.1)	(3.4)	(2.6)	(1.4)	0.2	(7.2)
Financial income (expenses) net	(2.6)	(10.6)	(6.5)	(3.1)	(22.8)	(4.8)	(5.5)	(5.5)	(5.5)	(21.3)
Income before taxes on income	(54.7)	(7.4)	(16.4)	(7.3)	(85.7)	(8.2)	(8.1)	(6.9)	(5.3)	(28.5)
Taxes on income	0.0	0.3	0.2	0.0	0.5	0.4	0.3	0.5	0.8	1.9
Income after taxes on income	(54.7)	(7.7)	(16.6)	(7.3)	(86.2)	(8.5)	(8.4)	(7.4)	(6.1)	(30.4)
Share in losses of associated co's	4.0	5.1	(4.0)	(3.6)	1.4	(4.4)	(4.5)	(4.5)	(4.5)	(17.9)
Minority share in losses of a subsidiary	0.0	0.3	0.2	1.7	2.2	0.0	0.0	0.0	0.0	0.0
One-time expenses		2.0	(246.0)		(244.0)					0.0
Net income (loss)	(58.6)	(14.7)	(266.4)	(10.9)	(329.4)	(12.9)	(12.9)	(11.9)	(10.6)	(48.3)
Wtg avg num of shares (MM fd)	23.4	23.4	23.4	23.4	23.4	23.4	24.0	24.0	24.0	23.8
EPS	(2.51)	(0.63)	(11.41)	(0.47)	(14.10)	(0.55)	(0.54)	(0.50)	(0.44)	(2.03)
Cash EPS	(0.46)	(0.20)	(0.88)		(2.00)					
Margin Analysis										
Gross	17.4%	33.0%	30.8%	32.2%	28.3%	30.6%	30.5%	31.0%	32.0%	31.0%
Operating	(51.9%)	2.7%	(12.2%)	(1.5%)	(15.4%)	(4.7%)	(3.5%)	(1.9%)	0.2%	(2.4%)
Net	(58.5%)	(12.4%)	(327.5%)	(12.3%)	(84.7%)	(17.9%)	(17.5%)	(15.7%)	(13.5%)	(16.1%)
Net R&D as % of revenues	11.0%	7.6%	10.1%	8.3%	9.2%	8.4%	8.2%	7.9%	7.6%	8.0%
SG&A as % of revenues	48.3%	22.7%	32.9%	25.3%	32.0%	26.9%	25.9%	25.0%	24.1%	25.4%
Sales growth Y/Y					(22.9%)					(22.8%)

Source: Company reports and Oscar Gruss estimates.

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Investment Ratings: BUY: expected total annual return of greater than **25%**. **LONG TERM BUY**: significant potential to deliver higher appreciation than its peer group over a 12-24 month period but which due to lack of visibility and current market conditions is not expected to have a near term upside in the stock price. **HOLD**: appears fairly valued and may provide returns which approximate returns expected from its peer group in the equity markets. **REDUCE**: appears overvalued or is experiencing problems that we believe may cause it to underperform its peer group and possibly reduce in value. Other factors considered in the Investment Ratings may include, but are not limited to, the company's risk profile, including earnings predictability, financial position, industry position, technology and product risks, management strengths and other factors. The required annual return for a specific Investment Rating will be increased for stocks with greater financial, business and/or earnings risk.

More information is available upon request.

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