

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

	<u>June 30,</u> <u>2014</u> <u>Unaudited</u>	<u>December 31,</u> <u>2013</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	33,400	58,424
Restricted cash	32,197	18,891
Restricted cash held by trustees	877	3,221
Trade receivables, net	64,828	56,466
Inventories	24,700	27,141
Other current assets	17,759	10,143
<b>Total current assets</b>	<u>173,761</u>	<u>174,286</u>
<b>LONG-TERM INVESTMENTS AND RECEIVABLES:</b>		
Long-term restricted cash	304	6,279
Severance pay funds	9,454	9,856
Other long term receivables and deferred charges	5,267	278
<b>Total long-term investments and receivables</b>	<u>15,025</u>	<u>16,413</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>93,311</u>	<u>85,369</u>
<b>INTANGIBLE ASSETS, NET</b>	<u>25,900</u>	<u>28,830</u>
<b>GOODWILL</b>	<u>63,870</u>	<u>63,870</u>
<b><u>TOTAL ASSETS</u></b>	<u>371,867</u>	<u>368,768</u>

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**US dollars in thousands**

	<u>June 30,</u> <u>2014</u> <u>Unaudited</u>	<u>December 31,</u> <u>2013</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit	7,518	-
Current maturities of long-term loans	4,664	4,665
Trade payables	20,991	20,900
Accrued expenses	21,037	16,748
Short-term advances from customers, held by trustees	3,596	-
Other current liabilities	45,146	54,666
<b>Total current liabilities</b>	<u>102,952</u>	<u>96,979</u>
<b>LONG-TERM LIABILITIES:</b>		
Accrued severance pay	9,123	9,628
Long-term loans, net of current maturities	26,888	31,251
Other long-term liabilities	8,936	4,877
<b>Total long-term liabilities</b>	<u>44,947</u>	<u>45,756</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY:</b>		
Share capital - ordinary shares of NIS 0.2 par value	1,957	1,932
Additional paid-in capital	874,986	873,045
Accumulated other comprehensive income	1,670	1,591
Accumulated deficit	(654,645)	(650,535)
<b>Total equity</b>	<u>223,968</u>	<u>226,033</u>
<b><u>TOTAL LIABILITIES AND EQUITY</u></b>	<u><u>371,867</u></u>	<u><u>368,768</u></u>

GILAT SATELLITE NETWORKS LTD.  
RECONCILIATION BETWEEN GAAP AND NON-GAAP STATEMENTS OF OPERATIONS  
FOR COMPARATIVE PURPOSES

U.S. dollars in thousands (except per share data)

	Three months ended			Three months ended		
	30 June 2014			30 June 2013		
	GAAP	Adjustments (1)	Non-GAAP	GAAP	Adjustments (1)	Non-GAAP
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	54,050	-	54,050	61,916	-	61,916
Cost of revenues	34,730	(1,248)	33,482	41,930	(1,244)	40,686
<b>Gross profit</b>	<b>19,320</b>	<b>1,248</b>	<b>20,568</b>	<b>19,986</b>	<b>1,244</b>	<b>21,230</b>
	36%		38%	32%		34%
<b>Research and development expenses:</b>						
Expenses incurred	6,878	(119)	6,759	7,145	(112)	7,033
Less - grants	594	-	594	532	-	532
	6,284	(119)	6,165	6,613	(112)	6,501
Selling and marketing expenses	8,677	(350)	8,327	7,774	(313)	7,461
General and administrative expenses	4,841	(290)	4,551	5,672	(273)	5,399
<b>Operating income (loss)</b>	<b>(482)</b>	<b>2,007</b>	<b>1,525</b>	<b>(73)</b>	<b>1,942</b>	<b>1,869</b>
Financial expenses, net	(515)	-	(515)	(2,396)	-	(2,396)
<b>Income (loss) before taxes on income</b>	<b>(997)</b>	<b>2,007</b>	<b>1,010</b>	<b>(2,469)</b>	<b>1,942</b>	<b>(527)</b>
Taxes on income	434	-	434	381	-	381
<b>Net income (loss) from continuing operations</b>	<b>(1,431)</b>	<b>2,007</b>	<b>576</b>	<b>(2,850)</b>	<b>1,942</b>	<b>(908)</b>
<b>Net income (loss) from discontinued operations</b>	<b>8</b>	<b>(8)</b>	<b>-</b>	<b>(1,126)</b>	<b>1,126</b>	<b>-</b>
<b>Net income (loss)</b>	<b>(1,423)</b>	<b>1,999</b>	<b>576</b>	<b>(3,976)</b>	<b>3,068</b>	<b>(908)</b>
<b>Basic net earnings (loss) per share from continuing operations</b>	<b>(0.03)</b>			<b>(0.07)</b>		
<b>Basic net earnings (loss) per share from discontinued operations</b>	<b>0.00</b>			<b>(0.03)</b>		
<b>Basic net earnings (loss) per share</b>	<b>(0.03)</b>		<b>0.01</b>	<b>(0.10)</b>		<b>(0.02)</b>
<b>Diluted net earnings (loss) per share from continuing operations</b>	<b>(0.03)</b>			<b>(0.07)</b>		
<b>Diluted net earnings (loss) per share from discontinued operations</b>	<b>0.00</b>			<b>(0.03)</b>		
<b>Diluted net earnings (loss) per share</b>	<b>(0.03)</b>		<b>0.01</b>	<b>(0.10)</b>		<b>(0.02)</b>
<b>Weighted average number of shares used in computing net earnings (loss) per share</b>						
Basic	42,358		42,358	41,932		41,932
Diluted	42,358		43,579	41,932		41,932

(1) Adjustments reflect the effect of non-cash stock based compensation as per ASC 718, amortization of intangible assets related to acquisition transactions, and net income (loss) from discontinued operations.

	Three months ended		Three months ended	
	30 June 2014		30 June 2013	
	Unaudited		Unaudited	
<b>Non-cash stock-based compensation expenses:</b>				
Cost of revenues		60		46
Research and development		119		112
Selling and marketing		138		102
General and administrative		290		273
		<b>607</b>		<b>533</b>
<b>Amortization of intangible assets related to acquisition transactions:</b>				
Cost of revenues		1,188		1,198
Selling and marketing		212		211
		<b>1,400</b>		<b>1,409</b>

GILAT SATELLITE NETWORKS LTD.  
RECONCILIATION BETWEEN GAAP AND NON-GAAP STATEMENTS OF OPERATIONS  
FOR COMPARATIVE PURPOSES

U.S. dollars in thousands (except per share data)

	Six months ended			Six months ended		
	30 June 2014			30 June 2013		
	GAAP	Adjustments (1)	Non-GAAP	GAAP	Adjustments (1)	Non-GAAP
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Revenues	104,901	-	104,901	127,336	-	127,336
Cost of revenues	65,606	(2,515)	63,091	84,569	(2,482)	82,087
<b>Gross profit</b>	<b>39,295</b>	<b>2,515</b>	<b>41,810</b>	<b>42,767</b>	<b>2,482</b>	<b>45,249</b>
	37%		40%	34%		36%
<b>Research and development expenses:</b>						
Expenses incurred	14,117	(241)	13,876	14,776	(211)	14,565
Less - grants	948	-	948	864	-	864
	13,169	(241)	12,928	13,912	(211)	13,701
Selling and marketing expenses	18,367	(692)	17,675	16,760	(614)	16,146
General and administrative expenses	9,753	(593)	9,160	11,117	(535)	10,582
<b>Operating income (loss)</b>	<b>(1,994)</b>	<b>4,041</b>	<b>2,047</b>	<b>978</b>	<b>3,842</b>	<b>4,820</b>
Financial expenses, net	(1,549)	-	(1,549)	(3,147)	-	(3,147)
<b>Income (loss) before taxes on income</b>	<b>(3,543)</b>	<b>4,041</b>	<b>498</b>	<b>(2,169)</b>	<b>3,842</b>	<b>1,673</b>
Taxes on income	524	-	524	757	-	757
<b>Net income (loss) from continuing operations</b>	<b>(4,067)</b>	<b>4,041</b>	<b>(26)</b>	<b>(2,926)</b>	<b>3,842</b>	<b>916</b>
Net income (loss) from discontinued operations	(43)	43	-	(3,406)	3,406	-
<b>Net income (loss)</b>	<b>(4,110)</b>	<b>4,084</b>	<b>(26)</b>	<b>(6,332)</b>	<b>7,248</b>	<b>916</b>
<b>Basic net earnings (loss) per share from continuing operations</b>	(0.10)			(0.07)		
<b>Basic net loss per share from discontinued operations</b>	(0.00)			(0.08)		
<b>Basic net earnings (loss) per share</b>	<b>(0.10)</b>		<b>(0.00)</b>	<b>(0.15)</b>		<b>0.02</b>
<b>Diluted net earnings (loss) per share from continuing operations</b>	(0.10)			(0.07)		
<b>Diluted net loss per share from discontinued operations</b>	(0.00)			(0.08)		
<b>Diluted net earnings (loss) per share</b>	<b>(0.10)</b>		<b>(0.00)</b>	<b>(0.15)</b>		<b>0.02</b>
<b>Weighted average number of shares used in computing net earnings (loss) per share</b>						
Basic	42,267		42,267	41,849		41,849
Diluted	42,267		42,267	41,849		43,906

(1) Adjustments reflect the effect of non-cash stock based compensation as per ASC 718, amortization of intangible assets related to acquisition transactions, and net income (loss) from discontinued operations.

	Six months ended		Six months ended	
	30 June 2014		30 June 2013	
	Unaudited		Unaudited	
<b>Non-cash stock-based compensation expenses:</b>				
Cost of revenues		118		86
Research and development		241		211
Selling and marketing		268		191
General and administrative		593		535
		<b>1,220</b>		<b>1,023</b>
<b>Amortization of intangible assets related to acquisition transactions:</b>				
Cost of revenues		2,397		2,396
Selling and marketing		424		423
		<b>2,821</b>		<b>2,819</b>

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	104,901	127,336	54,050	61,916
Cost of revenues	65,606	84,569	34,730	41,930
<b>Gross profit</b>	<b>39,295</b>	<b>42,767</b>	<b>19,320</b>	<b>19,986</b>
<b>Research and development expenses:</b>				
Expenses incurred	14,117	14,776	6,878	7,145
Less - grants	948	864	594	532
	13,169	13,912	6,284	6,613
Selling and marketing expenses	18,367	16,760	8,677	7,774
General and administrative expenses	9,753	11,117	4,841	5,672
<b>Operating income (loss)</b>	<b>(1,994)</b>	<b>978</b>	<b>(482)</b>	<b>(73)</b>
Financial expenses, net	(1,549)	(3,147)	(515)	(2,396)
<b>Income (loss) before taxes on income</b>	<b>(3,543)</b>	<b>(2,169)</b>	<b>(997)</b>	<b>(2,469)</b>
Taxes on income	524	757	434	381
<b>Net loss from continuing operations</b>	<b>(4,067)</b>	<b>(2,926)</b>	<b>(1,431)</b>	<b>(2,850)</b>
<b>Net loss from discontinued operations</b>	<b>(43)</b>	<b>(3,406)</b>	<b>8</b>	<b>(1,126)</b>
<b>Net loss</b>	<b>(4,110)</b>	<b>(6,332)</b>	<b>(1,423)</b>	<b>(3,976)</b>
<b>Net loss per share from continuing operations (basic and diluted)</b>	<b>(0.10)</b>	<b>(0.07)</b>	<b>(0.03)</b>	<b>(0.07)</b>
<b>Net loss per share from discontinued operations (basic and diluted)</b>	<b>(0.00)</b>	<b>(0.08)</b>	<b>0.00</b>	<b>(0.03)</b>
<b>Net loss per share (basic and diluted)</b>	<b>(0.10)</b>	<b>(0.15)</b>	<b>(0.03)</b>	<b>(0.10)</b>
<b>Weighted average number of shares used in computing net loss per share</b>				
Basic and diluted	<b>42,267</b>	<b>41,849</b>	<b>42,358</b>	<b>41,932</b>

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
<b><u>Cash flows from continuing operations</u></b>				
<b><u>Cash flows from operating activities:</u></b>				
Net loss from continuing operations	(4,067)	(2,926)	(1,431)	(2,850)
<b>Adjustments required to reconcile net loss to net cash generated provided by (used in) operating activities:</b>				
Depreciation and amortization	7,428	9,512	3,744	4,815
Stock-based compensation	1,220	1,023	607	533
Accrued severance pay, net	(103)	64	19	50
Accrued interest and exchange rate differences on short and long-term restricted cash, net	(32)	392	(118)	353
Exchange rate differences on long-term loans	(34)	(46)	(40)	86
Capital loss from disposal of property and equipment	60	12	43	-
Deferred income taxes	(47)	1,117	(11)	1,133
Increase in trade receivables, net	(8,034)	(2,205)	(5,994)	(6,385)
Decrease (increase) in other assets (including short-term, long-term and deferred charges)	(12,535)	3,802	(4,752)	4,422
Decrease (increase) in inventories	699	(4,450)	29	(538)
Increase (decrease) in trade payables	(52)	3,026	1,998	2,769
Increase (decrease) in accrued expenses	4,176	(3,443)	2,501	(2,611)
Increase (decrease) in advances from customers, held by trustees	3,451	(3,923)	(777)	306
Increase (decrease) in other current liabilities and other long term liabilities	(5,842)	(4,491)	(3,599)	644
<b>Net cash provided by (used in) operating activities</b>	<b><u>(13,712)</u></b>	<b><u>(2,536)</u></b>	<b><u>(7,781)</u></b>	<b><u>2,727</u></b>

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>	<u>Unaudited</u>
<b><u>Cash flows from investing activities:</u></b>				
Purchase of property and equipment	(10,319)	(1,820)	(9,794)	(887)
Investment in restricted cash held by trustees	(4,228)	(11,236)	-	(9,454)
Proceeds from restricted cash held by trustees	6,588	9,771	3,638	6,364
Investment in restricted cash (including long-term)	(7,516)	(2,365)	(7,516)	(202)
Proceeds from restricted cash (including long-term)	176	2,021	100	1,956
Purchase of intangible assets	-	(16)	-	-
<b>Net cash used in investing activities</b>	<b><u>(15,299)</u></b>	<b><u>(3,645)</u></b>	<b><u>(13,572)</u></b>	<b><u>(2,223)</u></b>
<b><u>Cash flows from financing activities:</u></b>				
Issuance of restricted stock units and exercise of stock options	746	562	453	9
Payment of obligation related to the purchase of intangible assets	-	(500)	-	(500)
Short-term bank credit, net	7,216	(458)	5,564	(975)
Repayment of long-term loans	(4,330)	(5,975)	(165)	(988)
<b>Net cash provided by (used in) financing activities</b>	<b><u>3,632</u></b>	<b><u>(6,371)</u></b>	<b><u>5,852</u></b>	<b><u>(2,454)</u></b>
<b><u>Cash flows from discontinued operations</u></b>				
Net cash used in operating activities	-	(3,336)	-	(3,254)
Net cash provided by investing activities	-	1,170	-	160
Net cash provided by (used in) financing activities	-	13,818	-	(442)
	<b><u>-</u></b>	<b><u>11,652</u></b>	<b><u>-</u></b>	<b><u>(3,536)</u></b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b><u>355</u></b>	<b><u>(227)</u></b>	<b><u>322</u></b>	<b><u>(190)</u></b>
<b>Decrease in cash and cash equivalents</b>	<b><u>(25,024)</u></b>	<b><u>(1,127)</u></b>	<b><u>(15,179)</u></b>	<b><u>(5,676)</u></b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b><u>58,424</u></b>	<b><u>66,968</u></b>	<b><u>48,579</u></b>	<b><u>71,517</u></b>
<b>Cash and cash equivalents at the end of the period</b>	<b><u>33,400</u></b>	<b><u>65,841</u></b>	<b><u>33,400</u></b>	<b><u>65,841</u></b>

**GILAT SATELLITE NETWORKS LTD.**  
**CONDENSED EBITDA**  
**US dollars in thousands**

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
Operating income (loss)	(1,994)	978	(482)	(73)
Add:				
Non-cash stock-based compensation expenses	1,220	1,023	607	533
Depreciation and amortization	7,428	9,512	3,744	4,815
<b>EBITDA</b>	<b>6,654</b>	<b>11,513</b>	<b>3,869</b>	<b>5,275</b>