

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

	<u>September 30,</u> <u>2014</u> <u>Unaudited</u>	<u>December 31,</u> <u>2013</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	24,638	58,424
Restricted cash	34,917	18,891
Restricted cash held by trustees	394	3,221
Trade receivables, net	54,388	56,466
Inventories	26,065	27,141
Other current assets	13,936	10,143
Total current assets	<u>154,338</u>	<u>174,286</u>
LONG-TERM INVESTMENTS AND RECEIVABLES:		
Long-term restricted cash	228	6,279
Severance pay funds	8,609	9,856
Other long term receivables and deferred charges	7,544	278
Total long-term investments and receivables	<u>16,381</u>	<u>16,413</u>
PROPERTY AND EQUIPMENT, NET	<u>93,061</u>	<u>85,369</u>
INTANGIBLE ASSETS, NET	<u>24,435</u>	<u>28,830</u>
GOODWILL	<u>63,870</u>	<u>63,870</u>
<u>TOTAL ASSETS</u>	<u>352,085</u>	<u>368,768</u>

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	<u>September 30,</u> <u>2014</u> <u>Unaudited</u>	<u>December 31,</u> <u>2013</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and loans	13,517	-
Current maturities of long-term loans	4,614	4,665
Trade payables	16,137	20,900
Accrued expenses	19,302	16,748
Short-term advances from customers, held by trustees	22	-
Other current liabilities	35,901	54,666
Total current liabilities	<u>89,493</u>	<u>96,979</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	8,423	9,628
Long-term loans, net of current maturities	26,507	31,251
Other long-term liabilities	5,031	4,877
Total long-term liabilities	<u>39,961</u>	<u>45,756</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Share capital - ordinary shares of NIS 0.2 par value	1,959	1,932
Additional paid-in capital	875,611	873,045
Accumulated other comprehensive income	(471)	1,591
Accumulated deficit	(654,468)	(650,535)
Total equity	<u>222,631</u>	<u>226,033</u>
<u>TOTAL LIABILITIES AND EQUITY</u>	<u><u>352,085</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 share and per share data)

	Three months ended			Three months ended		
	30 September 2014			30 September 2013		
	GAAP	Adjustments (1)	Non-GAAP	GAAP	Adjustments (1)	Non-GAAP
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Revenues	57,135	-	57,135	51,802	-	51,802
Cost of revenues	38,567	(1,258)	37,309	35,122	(1,255)	33,867
Gross profit	18,568	1,258	19,826	16,680	1,255	17,935
	32%		35%	32%		35%
Research and development expenses:						
Expenses incurred	6,714	(121)	6,593	7,088	(128)	6,960
Less - grants	854	-	854	585	-	585
	5,860	(121)	5,739	6,503	(128)	6,375
Selling and marketing expenses	6,913	(350)	6,563	6,919	(339)	6,580
General and administrative expenses	4,258	(305)	3,953	5,613	(304)	5,309
Operating income (loss)	1,537	2,034	3,571	(2,355)	2,026	(329)
Financial expenses, net	(349)	-	(349)	(1,490)	-	(1,490)
Income (loss) before taxes on income	1,188	2,034	3,222	(3,845)	2,026	(1,819)
Taxes on income	259	-	259	(804)	-	(804)
Net income (loss) from continuing operations	929	2,034	2,963	(3,041)	2,026	(1,015)
Net income (loss) from discontinued operations	(752)	752	-	(1,003)	1,003	-
Net income (loss)	177	2,786	2,963	(4,044)	3,029	(1,015)
Basic net earnings (loss) per share from continuing operations	0.02			(0.07)		
Basic net loss per share from discontinued operations	(0.02)			(0.02)		
Basic net earnings (loss) per share	<u>0.00</u>		<u>0.07</u>	<u>(0.09)</u>		<u>(0.02)</u>
Diluted net earnings (loss) per share from continuing operations	0.02			(0.07)		
Diluted net loss per share from discontinued operations	(0.02)			(0.02)		
Diluted net earnings (loss) per share	<u>0.00</u>		<u>0.07</u>	<u>(0.09)</u>		<u>(0.02)</u>
Weighted average number of shares used in computing net earnings (loss) per share						
Basic	<u>42,579,396</u>		<u>42,579,396</u>	<u>42,047,569</u>		<u>42,047,569</u>
Diluted	<u>42,995,059</u>		<u>43,586,395</u>	<u>42,047,569</u>		<u>42,047,569</u>

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

	Three months ended		Three months ended	
	30 September 2014		30 September 2013	
	Unaudited		Unaudited	
Non-cash stock-based compensation expenses:				
Cost of revenues		61		57
Research and development		121		128
Selling and marketing		136		126
General and administrative		305		304
		<u>623</u>		<u>615</u>
Amortization of intangible assets related to acquisition transactions:				
Cost of revenues		1,197		1,198
Selling and marketing		214		213
		<u>1,411</u>		<u>1,411</u>

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

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

	Nine months ended 30 September 2014			Nine months ended 30 September 2013		
	GAAP	Adjustments (1)	Non-GAAP	GAAP	Adjustments (1)	Non-GAAP
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	162,036	-	162,036	179,138	-	179,138
Cost of revenues	104,173	(3,773)	100,400	119,691	(3,737)	115,954
Gross profit	57,863	3,773	61,636	59,447	3,737	63,184
	36%		38%	33%		35%
Research and development expenses:						
Expenses incurred	20,831	(362)	20,469	21,864	(339)	21,525
Less - grants	1,802	-	1,802	1,449	-	1,449
	19,029	(362)	18,667	20,415	(339)	20,076
Selling and marketing expenses	25,280	(1,042)	24,238	23,679	(953)	22,726
General and administrative expenses	14,011	(898)	13,113	16,730	(839)	15,891
Operating income (loss)	(457)	6,075	5,618	(1,377)	5,868	4,491
Financial expenses, net	(1,898)	-	(1,898)	(4,637)	-	(4,637)
Income (loss) before taxes on income	(2,355)	6,075	3,720	(6,014)	5,868	(146)
Taxes on income	783	-	783	(47)	-	(47)
Net income (loss) from continuing operations	(3,138)	6,075	2,937	(5,967)	5,868	(99)
Net income (loss) from discontinued operations	(795)	795	-	(4,409)	4,409	-
Net income (loss)	(3,933)	6,870	2,937	(10,376)	10,277	(99)
Basic net loss per share from continuing operations	(0.07)			(0.14)		
Basic net loss per share from discontinued operations	(0.02)			(0.11)		
Basic net earnings (loss) per share	(0.09)		0.07	(0.25)		(0.00)
Diluted net loss per share from continuing operations	(0.07)			(0.14)		
Diluted net loss per share from discontinued operations	(0.02)			(0.11)		
Diluted net earnings (loss) per share	(0.09)		0.07	(0.25)		(0.00)
Weighted average number of shares used in computing net earnings (loss) per share						
Basic	42,371,039		42,371,039	41,915,209		41,915,209
Diluted	42,371,039		43,615,894	41,915,209		41,915,209

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

	Nine months ended 30 September 2014		Nine months ended 30 September 2013	
	Unaudited		Unaudited	
Non-cash stock-based compensation expenses:				
Cost of revenues		179		143
Research and development		362		339
Selling and marketing		404		317
General and administrative		898		839
		1,843		1,638
Amortization of intangible assets related to acquisition transactions:				
Cost of revenues		3,594		3,594
Selling and marketing		638		636
		4,232		4,230

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	162,036	179,138	57,135	51,802
Cost of revenues	104,173	119,691	38,567	35,122
Gross profit	57,863	59,447	18,568	16,680
Research and development expenses:				
Expenses incurred	20,831	21,864	6,714	7,088
Less - grants	1,802	1,449	854	585
	19,029	20,415	5,860	6,503
Selling and marketing expenses	25,280	23,679	6,913	6,919
General and administrative expenses	14,011	16,730	4,258	5,613
Operating income (loss)	(457)	(1,377)	1,537	(2,355)
Financial expenses, net	(1,898)	(4,637)	(349)	(1,490)
Income (loss) before taxes on income	(2,355)	(6,014)	1,188	(3,845)
Taxes on income	783	(47)	259	(804)
Net income (loss) from continuing operations	(3,138)	(5,967)	929	(3,041)
Net loss from discontinued operations	(795)	(4,409)	(752)	(1,003)
Net income (loss)	(3,933)	(10,376)	177	(4,044)
Net income (loss) per share from continuing operations (basic and diluted)	(0.07)	(0.14)	0.02	(0.07)
Net loss per share from discontinued operations (basic and diluted)	(0.02)	(0.11)	(0.02)	(0.02)
Net income (loss) per share (basic and diluted)	(0.09)	(0.25)	0.00	(0.09)
Weighted average number of shares used in computing net loss per share				
Basic	42,371,039	41,915,209	42,579,396	42,047,569
Diluted	42,371,039	41,915,209	42,995,059	42,047,569

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
<u>Cash flows from continuing operations</u>				
<u>Cash flows from operating activities:</u>				
Net income (loss)	(3,933)	(10,376)	177	(4,044)
Net loss from discontinued operations	(795)	(4,409)	(752)	(1,003)
Net income (loss) from continuing operations	(3,138)	(5,967)	929	(3,041)
Adjustments required to reconcile net income (loss) to net cash generated provided by (used in) operating activities:				
Depreciation and amortization	11,626	13,510	4,198	3,998
Stock-based compensation	1,843	1,638	623	615
Accrued severance pay, net	42	(1)	145	(65)
Accrued interest and exchange rate differences on short and long-term restricted cash, net	464	1,382	496	990
Exchange rate differences on long-term loans	(311)	92	(277)	138
Capital loss from disposal of property and equipment	241	13	181	1
Deferred income taxes	(56)	291	(9)	(826)
Decrease in trade receivables, net	1,538	666	9,572	2,871
Decrease (increase) in other assets (including short-term, long-term and deferred charges)	(11,731)	1,144	804	(2,658)
Increase in inventories	(1,226)	(7,791)	(1,925)	(3,341)
Increase (decrease) in trade payables	(4,704)	3,629	(4,652)	603
Increase (decrease) in accrued expenses	1,491	(4,239)	(2,685)	(796)
Decrease in advances from customers, held by trustees	(65)	(4,448)	(3,516)	(525)
Decrease in other current liabilities and other long term liabilities	(19,601)	(5,588)	(13,759)	(1,097)
Net cash used in operating activities	(23,587)	(5,669)	(9,875)	(3,133)

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
<u>Cash flows from investing activities:</u>				
Purchase of property and equipment	(12,195)	(2,817)	(1,876)	(997)
Investment in restricted cash held by trustees	(5,914)	(14,455)	(1,686)	(3,219)
Proceeds from restricted cash held by trustees	8,625	10,283	2,037	512
Investment in restricted cash (including long-term)	(10,581)	(2,481)	(3,065)	(116)
Proceeds from restricted cash (including long-term)	232	2,557	56	536
Purchase of intangible assets	-	(16)	-	-
Net cash used in investing activities	(19,833)	(6,929)	(4,534)	(3,284)
<u>Cash flows from financing activities:</u>				
Capital lease payments	(86)	-	(86)	-
Issuance of restricted stock units and exercise of stock options	748	579	2	17
Payment of obligation related to the purchase of intangible assets	(500)	(500)	(500)	-
Short term bank credit, net	14,177	(92)	6,961	366
Repayment of long-term loans	(4,484)	(12,804)	(154)	(6,829)
Net cash provided by (used in) financing activities	9,855	(12,817)	6,223	(6,446)
<u>Cash flows from discontinued operations</u>				
Net cash provided by (used in) operating activities	-	(1,308)	-	2,028
Net cash provided by (used in) investing activities	-	705	-	(465)
Net cash provided by (used in) financing activities	-	13,184	-	(634)
	-	12,581	-	929
Effect of exchange rate changes on cash and cash equivalents	(221)	(220)	(576)	7
Decrease in cash and cash equivalents	(33,786)	(13,054)	(8,762)	(11,927)
Cash and cash equivalents at the beginning of the period	58,424	66,968	33,400	65,841
Cash and cash equivalents at the end of the period	24,638	53,914	24,638	53,914

GILAT SATELLITE NETWORKS LTD.
CONDENSED EBITDA
US dollars in thousands

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	Unaudited	Unaudited	Unaudited	Unaudited
Operating income (loss)	(457)	(1,377)	1,537	(2,355)
Add:				
Non-cash stock-based compensation expenses	1,843	1,638	623	615
Depreciation and amortization	11,626	13,510	4,198	3,998
EBITDA	13,012	13,771	6,358	2,258