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**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 September, 2019

**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 as Exhibits 99.1 and 99.2 are Registrant's Condensed Interim Unaudited Consolidated Financial Statements as of June 30, 2019 and for the Six Months ended June 30, 2019 and June 30, 2018 and Operating and Financial Review and Prospects.

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-180552, 333-187021, 333-204867, 333-210820, 333-217022, 333-221546, 333-223839 and 333-231442) and on Form F-3 (Registration No. 333-232597).

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)

Dated September 26, 2019

By: /s/ Yael Shofar  
Yael Shofar  
General Counsel

GILAT SATELLITE NETWORKS LTD.

6-K Exhibits

[99.1 Condensed Interim Unaudited Consolidated Financial Statements of Gilat Satellite Networks Ltd. and its subsidiaries as of June 30, 2019 and for the Six Months ended June 30, 2019 and June 30, 2018.](#)

[99.2 Operating and Financial Review and Prospects.](#)

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2019

UNAUDITED

IN U.S. DOLLARS

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**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 39,904	\$ 67,381
Restricted cash	27,094	32,305
Restricted cash held by trustees	2,353	4,372
Trade receivables, net	45,553	47,164
Contract assets	47,119	47,760
Inventories	26,224	21,109
Other current assets	25,777	26,022
<b>Total current assets</b>	<b>214,024</b>	<b>246,113</b>
<b>LONG-TERM ASSETS:</b>		
Restricted cash	147	146
Severance pay funds	6,770	6,780
Deferred tax asset	2,809	4,127
Operating lease right-of-use assets	4,721	-
Other receivables	9,371	7,276
<b>Total long-term assets</b>	<b>23,818</b>	<b>18,329</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>82,466</b>	<b>84,403</b>
<b>INTANGIBLE ASSETS, NET</b>	<b>1,757</b>	<b>2,434</b>
<b>GOODWILL</b>	<b>43,468</b>	<b>43,468</b>
<b>Total assets</b>	<b>\$ 365,533</b>	<b>\$ 394,747</b>

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.-

**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term loans	\$ 4,325	\$ 4,458
Trade payables	28,569	24,636
Accrued expenses	59,012	67,533
Advances from customers and deferred revenues	20,403	29,133
Operating lease liabilities	1,659	-
Other current liabilities	13,650	14,588
<b>Total</b> current liabilities	<b>127,618</b>	<b>140,348</b>
<b>LONG-TERM LIABILITIES:</b>		
Accrued severance pay	7,020	6,649
Loans, net of current maturities	4,000	8,098
Operating lease liabilities	3,093	-
Other liabilities	646	580
<b>Total</b> long-term liabilities	<b>14,759</b>	<b>15,327</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital -		
Ordinary shares of NIS 0.2 par value: Authorized: 90,000,000 shares as of June 30, 2019 and December 31, 2018; Issued and outstanding: 55,441,303 and 55,176,107 shares as of June 30, 2019 and December 31, 2018, respectively	2,640	2,625
Additional paid-in capital	926,509	924,856
Accumulated other comprehensive loss	(4,329)	(5,380)
Accumulated deficit	(701,664)	(683,029)
<b>Total</b> shareholders' equity	<b>223,156</b>	<b>239,072</b>
<b>Total</b> liabilities and shareholders' equity	<b>\$ 365,533</b>	<b>\$ 394,747</b>

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

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

	Six months ended June 30,	
	2019	2018
Revenue:		
Products	\$ 83,983	\$ 83,771
Services	37,811	50,111
Total revenue	<u>121,794</u>	<u>133,882</u>
Cost of revenue:		
Products	55,597	62,475
Services	20,642	27,578
Total cost of revenue	<u>76,239</u>	<u>90,053</u>
Gross profit	45,555	43,829
Operating expenses:		
Research and development costs, net	15,398	15,920
Selling and marketing	11,288	11,716
General and administrative	9,527	8,389
Total operating expenses	<u>36,213</u>	<u>36,025</u>
Operating income	9,342	7,804
Financial expenses, net	<u>(1,400)</u>	<u>(2,188)</u>
Income before taxes on income	7,942	5,616
Taxes on income	1,713	1,154
Net income	<u>\$ 6,229</u>	<u>\$ 4,462</u>
Net income per share:		
Basic	<u>\$ 0.11</u>	<u>\$ 0.08</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.08</u>
Weighted average number of shares used in computing earning per share:		
Basic	<u>55,262,453</u>	<u>54,811,893</u>
Diluted	<u>56,014,927</u>	<u>55,614,782</u>

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

U.S. dollars in thousands

	Six months ended June 30,	
	2019	2018
Net income	\$ 6,229	\$ 4,462
Other comprehensive income (loss):		
Foreign currency translation adjustments	423	(1,328)
Change in unrealized gain (loss) on hedging instruments, net	854	(1,039)
Less - reclassification adjustments for net loss (gain) realized and included in income (loss) on hedging instruments, net	(226)	144
Total other comprehensive income (loss)	1,051	(2,223)
Comprehensive income	\$ 7,280	\$ 2,239

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.



**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**

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

	Number of Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive (loss)	Accumulated deficit	Total shareholders' equity
Balance as of December 31, 2017	54,737,267	\$ 2,601	\$ 921,726	\$ (3,046)	\$ (702,959)	\$ 218,322
Effect of adoption of ASC 606	–	–	–	–	1,521	1,521
Stock-based compensation of options	–	–	488	–	–	488
Exercise of stock options	164,250	9	564	–	–	573
Comprehensive income (loss)	–	–	–	(2,223)	4,462	2,239
Balance as of June 30, 2018	<u>54,901,517</u>	<u>\$ 2,610</u>	<u>\$ 922,778</u>	<u>\$ (5,269)</u>	<u>\$ (696,976)</u>	<u>\$ 223,143</u>
	Number of Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
Balance as of December 31, 2018	55,176,107	\$ 2,625	\$ 924,856	\$ (5,380)	\$ (683,029)	\$ 239,072
Stock-based compensation of options	–	–	1,293	–	–	1,293
Exercise of stock options	265,196	15	360	–	–	375
Dividend distribution	–	–	–	–	(24,864)	(24,864)
Comprehensive income	–	–	–	1,051	6,229	7,280
Balance as of June 30, 2019	<u>55,441,303</u>	<u>\$ 2,640</u>	<u>\$ 926,509</u>	<u>\$ (4,329)</u>	<u>\$ (701,664)</u>	<u>\$ 223,156</u>

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

U.S. dollars in thousands

	Six months ended June 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,229	\$ 4,462
Adjustments required to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,681	7,322
Stock-based compensation of options and RSUs	1,293	488
Accrued severance pay, net	382	47
Deferred income taxes, net	1,385	(29)
Decrease in trade receivables, net	2,506	15,089
(Increase) decrease in contract assets	(232)	14,380
Increase in other assets and receivables	(29)	(9,147)
(Increase) decrease in inventories, net	(6,137)	332
Increase (decrease) in trade payables	3,933	(11,634)
Decrease in accrued expenses	(7,076)	(1,980)
Decrease in advances from customers and deferred revenues	(8,405)	(4,980)
Decrease in advances from customers held by trustees	-	(1,478)
Increase (decrease) in other liabilities	(1,950)	5,562
Net cash (used in) provided by operating activities	(2,420)	18,434
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(3,587)	(5,014)
Net cash used in investing activities	(3,587)	(5,014)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock option and restricted stock units	375	573
Dividend payment	(24,864)	-
Repayment of long-term loans	(4,231)	(4,249)
Net cash used in financing activities	(28,720)	(3,676)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	21	(709)
Increase (decrease) in cash, cash equivalents and restricted cash	(34,706)	9,035
Cash, cash equivalents and restricted cash at the beginning of the period	104,204	86,757
Cash, cash equivalents and restricted cash at the end of the period	\$ 69,498	\$ 95,792

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

U.S. dollars in thousands

Supplementary disclosure of cash flows activities:

<b>(1) Cash paid during the period for:</b>		
Interest	<u>\$ 320</u>	<u>\$ 398</u>
Income taxes	<u>\$ 640</u>	<u>\$ 2,495</u>
<b>(2) Non-cash transactions:</b>		
Purchases of property and equipment that were not paid for and reclassification from inventories to property and equipment	<u>\$ 2,349</u>	<u>\$ 1,768</u>

The accompanying notes are an integral part of the unaudited condensed interim consolidated financial statements.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 1: - GENERAL**

## a. Organization:

Gilat Satellite Networks Ltd. and its subsidiaries (the "Company") is a global provider of satellite-based broadband communications. The Company designs and manufactures ground-based satellite communications equipment, and provides comprehensive solutions and end-to-end services, powered by its technology. The Company's portfolio comprises a cloud based satellite network platform, very small aperture terminals ("VSATs"), amplifiers, high-speed modems, on-the-move antennas and high power solid-state power amplifiers ("SSPAs") and block up converters ("BUCs"). The Company's solutions support multiple applications with a full portfolio of products to address key applications including broadband access, cellular backhaul, enterprise, in-flight connectivity, maritime, trains, defense and public safety. The Company also provides connectivity services, internet access and telephony, to enterprise, government and residential customers utilizing both its own networks, and also other networks that it installs, mainly based on Build Operate Transfer ("BOT") contracts. The Company also provides managed network services over VSAT networks owned by others.

The Company was incorporated in Israel in 1987 and launched its first generation VSAT in 1989.

The Company operates in three business segments consisting of Fixed Networks, Mobility Solutions and Terrestrial Infrastructure Projects. Refer to Note 12 for additional information.

- b. The Company depends on major suppliers to supply certain components and services for the production of its products or providing services. If these suppliers fail to deliver or delay the delivery of the necessary components or services, the Company will be required to seek alternative sources of supply. A change in suppliers could result in manufacturing delays or services delays which could cause a possible loss of sales and additional incremental costs and, consequently, could adversely affect the Company's results of operations and financial position.

**NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES**

## a. Unaudited condensed interim consolidated financial statements:

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. In the opinion of management, the unaudited condensed interim consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the Company's consolidated financial statements.

The balance sheet at December 31, 2018 has been derived from the audited consolidated financial statements of the Company at that date but does not include all information and footnotes required by U.S. GAAP for complete financial statements.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018, included in the Company's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission ("SEC") on March 18, 2019. The significant accounting policies applied in the Company's audited 2018 consolidated financial statements and notes thereto included in the Annual Report are applied consistently in these unaudited condensed interim consolidated financial statements, except for changes associated with the new leases standard for the six months ended June 30, 2019, as detailed in Note 2 (d). Results for the six months ended June 30, 2019 are not necessarily indicative of results that may be expected for the year ending December 31, 2019.

## b. Use of estimates:

The preparation of the condensed interim consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## c. Principles of consolidation:

The condensed interim consolidated financial statements include the accounts of Gilat Satellite Networks Ltd. and its subsidiaries in which the Company has a controlling voting interest and entities consolidated under the variable interest entities ("VIE") provisions of ASC 810, "Consolidation" ("ASC 810"). Inter-company balances and transactions have been eliminated upon consolidation.

## d. Recently adopted accounting standard:

1. In February 2016, the FASB issued ASU 2016-02, Leases ("Topic 842" or "ASC 842"). The standard requires lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability and requires leases to be classified as either an operating or a finance type lease. The standard excludes leases of intangible assets or inventory. Leases with a term of 12 months or less are accounted for in a manner similar to the accounting under the previous guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840, "Leases".

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company adopted ASC 842 on January 1, 2019, using the modified retrospective approach, by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 840.

The Company leases real estate and storage areas, which are all classified as operating leases. In addition to rent payments, the leases may require the Company to pay for insurance, maintenance and other operating expenses.

The Company determines if an arrangement is a lease at inception. Lease classification is governed by five criteria in ASC 842-10-25-2. If any of these five criteria is met, the Company classifies the lease as a finance lease. Otherwise, the Company classifies the lease as an operating lease.

Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments. Operating lease expenses are recognized on a straight-line basis over the lease term. Several of the Company's leases include options to extend the lease. For purposes of calculating lease liabilities, lease terms include options to extend the lease when it is reasonably certain that the Company will exercise such options. The Company's lease agreements do not contain any material residual value guarantees.

The Company's ROU assets are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases with a term shorter than 12 months. This means that for those leases, the Company does not recognize ROU assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition, but recognizes lease expenses over the lease term on a straight-line basis. The Company also elected the practical expedient to not separate lease and non-lease components for all of the Company's leases.

The new lease standard does not have a notable impact on the Company's financial covenant compliance under its credit lines.

The Company recorded upon adoption as of January 1, 2019, right-of-use leased assets and corresponding liabilities of \$5,581. See Note 7 for further information on leases.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

2. In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities, which expands an entity's ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the provisions of this update as of January 1, 2019 with no impact on its consolidated financial statements.

e. Impact of recently issued accounting standard and not yet adopted:

In January 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses on Financial Instruments", which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available for sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available for sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for interim and annual periods beginning after January 1, 2020, and early adoption is permitted. The Company does not expect this new guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 of the goodwill impairment test, which requires the calculation of the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the expected impact of the standard on its consolidated financial statements.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 3:- INVENTORIES**

Inventories are comprised of the following:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Raw materials, parts and supplies	\$ 7,080	\$ 5,885
Work in progress and assembled raw materials	12,898	10,548
Finished products	6,246	4,676
	<u>\$ 26,224</u>	<u>\$ 21,109</u>

Inventory write-offs amounted to \$1,260 and \$3,189 during the six months ended June 30, 2019 and 2018, respectively.

**NOTE 4:- PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Cost:		
Buildings and land	\$ 92,235	\$ 92,025
Computers, software and electronic equipment	52,447	50,390
Network equipment	40,968	40,502
Office furniture and equipment	5,510	5,317
Vehicles	279	324
Leasehold improvements	3,619	3,556
	195,058	192,114
Accumulated depreciation	<u>112,592</u>	<u>107,711</u>
Depreciated cost	<u>\$ 82,466</u>	<u>\$ 84,403</u>

Depreciation expenses amounted to \$5,004 and \$4,723 in the six months ended June 30, 2019 and 2018, respectively.

**NOTE 5:- DEFERRED REVENUE**

Deferred revenue as of June 30, 2019 and December 31, 2018 was \$8,476 and \$8,658, respectively, and primarily relates to revenue that is recognized over time for service contracts. Approximately \$3,307 of the December 31, 2018 balance was recognized as revenue during the period ended June 30, 2019.

The balance of deferred revenues approximates the aggregate amount of the billed and collected amount allocated to the unsatisfied performance obligations at the end of reporting period.



**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 5:- DEFERRED REVENUE (Cont.)**

All of the Company's performance obligations in contracts with customers, other than large scale governmental projects (expected to be recognized over periods of approximately 11-15 years), principally relate to contracts with a duration of less than one year, and as such, the Company is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. For information regarding disaggregated revenues, please refer to note 12 (b).

**NOTE 6:- COMMITMENTS AND CONTINGENCIES**

## a. Litigations:

In 2003, the Brazilian tax authority filed a claim against the Company's inactive subsidiary in Brazil, for the payment of taxes allegedly due from the subsidiary. After numerous hearings and appeals at various appellate levels in Brazil, the Supreme Court in February and March 2016 ruled against the subsidiary in final non-appealable decisions. The total amount of this claim, including interest, penalties and legal fees is approximately \$9,100, of which approximately \$1,000 is the principal. The Brazilian tax authorities initiated foreclosure proceedings against the subsidiary and certain of its former managers. Pursuant to the court's decision, published in March 2016, the foreclosure proceedings against the former managers were cancelled. The tax authorities appealed such decision which appeal was rejected in July 2017. This court ruling is final and is not appealable. Based on Brazilian external counsel's opinion, the Company believes that the subsidiary has solid arguments to sustain its position that further collection proceedings are barred due to statute of limitation and that the inclusion of any additional co-obligors in the tax foreclosure certificate should be barred due to the applicable statute of limitations and that the foreclosure procedures cannot legally be redirected to any of the Company's entities and managers who were not cited in the foreclosure certificate. Accordingly, the Company believes that the chances that such redirection will lead to a loss recognition are remote.

In October 2017, the Temporary Union UGC-FUSA, a former subcontractor that the Company hired in connection with the Kioscos project in Colombia, initiated an arbitration proceeding against the Company's subsidiary for a breach of contract. The amount of the claim was approximately \$6,300. In July 2018 the Company's subsidiary filed its response and a counterclaim against the subcontractor. In June 2019, the case was concluded by way of settlement. The settlement amount was paid subsequent to June 30, 2019.

As of June 30, 2019, the Company had adequate accruals relating to this proceeding.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 6:- COMMITMENTS AND CONTINGENCIES (Cont.)**

In 2018, the Company's subsidiary GNP won a government bid for the two additional regional projects for National Telecommunications Program (Programa Nacional de Telecomunicaciones) or PRONATEL (previously FITEL) in Peru in the aggregate amount of approximately \$154,000. GMC Engineering Solutions and SATEL Comunicaciones Datos, which are two of the three entities comprising the losing bidder consortium, applied to the superior court in Lima for cancellation of the bid and obtained a preliminary injunction against the award. The Company's subsidiary was served as an interested third party and filed its objection and preliminary defense. Currently, the Company's subsidiary continues performing these projects. Based on advice of counsel, the Company believe that the appeal's chances of success are remote.

In addition, the Company is in the midst of different stages of audits and disputes with various tax authorities in different parts of the world. Further, the Company is the defendant in various other lawsuits, including employment-related litigation claims and other legal proceedings in the normal course of its business. While the Company intends to defend the aforementioned matters vigorously, it believes that a loss in excess of its accrued liability with respect to these claims is not probable.

b. Guarantees:

As of June 30, 2019, the aggregate amount of bank guarantees and surety bonds from insurance companies outstanding in order to secure the Company's various obligations was \$128,036, including an aggregate of \$118,469 on behalf of its subsidiaries in Peru. The Company has \$27,241 of restricted cash to secure these guarantees.

c. Commitments:

During the six months ended June 30, 2019, the Company has not entered into any new commitments with material effect on the Company's condensed interim consolidated financial statements.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 7:- LEASES**

At the beginning of fiscal 2019, the Company adopted ASC 842. The Company has entered into various non-cancelable operating lease agreements for certain of its offices and car leases. The Company's leases have original lease periods expiring between 2020 and 2027. Several leases include one or more options to renew. The Company does not assume renewals in determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement.

The following is a schedule, by years, of maturities of lease liabilities as of June 30, 2019:

	<u>Operating Leases</u>
July 1 <sup>st</sup> 2019 until December 31, 2019	\$ 975
2020	1,377
2021	1,213
2022	1,032
2023	518
2024 and after	15
Total operating lease payments	<u>\$ 5,130</u>
Less: imputed interest	378
Present value of lease liabilities	<u>\$ 4,752</u>

The Company's weighted-average discount rate is 4.5%

**NOTE 8:- DERIVATIVE INSTRUMENTS**

During the six months ended June 30, 2019 and 2018, the Company recognized net income (loss) related to the effective portion of its hedging instruments. The effective portion of the hedged instruments has been included as an offset (addition) of payroll expenses and other operating expenses in the consolidated statement of income (loss) amounted to \$226 and \$(144) in the six months ended June 30, 2019 and 2018, respectively.

As of June 30, 2019 and 2018, the Company had outstanding forward contracts in the notional amount of \$9,058 and \$15,715, respectively. The fair value of derivative instruments in the condensed interim consolidated balance sheets amounted to \$308 and \$(320) as of June 30, 2019 and December 31, 2018, respectively.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**U.S. dollars in thousands

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**NOTE 9:- SHAREHOLDERS' EQUITY**

## a. Share capital:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

## b. Stock option plans:

In October 2008, the compensation stock option committee of the Company's Board of Directors approved the adoption of the 2008 Stock Incentive Plan (the "2008 Plan") with 1,000,000 shares or stock options available for grant and a sub-plan to enable qualified optionees certain tax benefits under the Israeli Income Tax Ordinance. Among the incentives that may be adopted are stock options, performance share awards, performance share unit awards, restricted shares, restricted share unit awards and other stock-based awards. During the years commencing in 2010 and through June 30, 2019, the Company's Board of Directors approved, in the aggregate, an increase of 5,965,500 shares to the number of shares available for grant under the 2008 Plan, bringing the total amount of shares available for grant to 6,965,500. As of June 30, 2019, an aggregate of 169,138 shares were available for future grants under the 2008 Plan.

The options granted under the 2008 Plan during the six months ended June 30, 2019 have vesting restrictions, valuations and contractual lives in similar nature to those described in Note 9 of Notes to consolidated financial statements included in the Company's annual report on Form 20-F for the fiscal year ended December 31, 2018.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

U.S. dollars in thousands

## NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

A summary of employee and director option balances under the 2008 Plan as of June 30, 2019 and changes during the year then ended are as follows:

	<u>Number of options</u>	<u>Weighted-average exercise price</u>	<u>Weighted- average remaining contractual term (in years)</u>	<u>Aggregate intrinsic value (in thousands)</u>
Outstanding at January 1, 2019	2,883,410	\$ 5.6		
Granted	912,500	\$ 9.5		
Exercised	(557,810)	\$ 5.1		
Forfeited	(91,250)	\$ 7.1		
Outstanding at June 30, 2019	<u>3,146,850</u>	<u>\$ 6.7</u>	<u>4.2</u>	<u>\$ 6,384</u>
Exercisable at June 30, 2019	<u>965,059</u>	<u>\$ 4.6</u>	<u>2.7</u>	<u>\$ 3,712</u>

In February 2019, the Company amended its 2008 Plan to state that in the event the Company declares a cash dividend to its shareholders and the distribution date of such cash dividend precedes the exercise of an option, then the exercise price of each outstanding option shall be automatically reduced by an amount equal to the cash dividend per share distributed by the Company. The amendment applied to the dividend declared by the Company's Board of Directors in March 2019, as described below.

The Company accounted for changes in award terms as a modification in accordance with ASC 718. A modification to the terms of an award should be treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value measured at the same date. Under ASC 718, the calculation of the incremental value is based on the excess of the fair value of the new (modified) award based on current circumstances over the fair value of the original award measured immediately before its terms are modified based on current circumstances. The total incremental effect in connection with the modification described above amounted to \$970 out of which \$685 was recorded during the six months ended June 30, 2019.

## c. Dividends:

The Company's Board of Directors declared on March 18, 2019 a cash dividend in the amount of \$0.45 per share (or \$24,864), which was paid on April 11, 2019 to shareholders of record on March 28, 2019. This dividend was the first time that the Company paid a dividend, however the Company has not adopted a general policy regarding the distribution of dividends and makes no statements as to the distribution of dividends in the foreseeable future.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 10:- COMPERHENSIVE INCOME**

The following tables shows the changes of accumulated other comprehensive income (loss), as of June 30, 2019:

	<b>Six months ended June 30, 2019</b>		
	<b>Foreign currency translation adjustments</b>	<b>Unrealized gains (losses) on cash flow hedges</b>	<b>Total</b>
Beginning balance	\$ (5,062)	\$ (318)	\$ (5,380)
Other comprehensive income before reclassifications	423	854	1,277
Amounts reclassified from accumulated other comprehensive income	-	(226)	(226)
Net current-period other comprehensive income	423	628	1,051
Ending balance	\$ (4,639)	\$ 310	\$ 4,329

**NOTE 11:- EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted net earnings per share:

1. Numerator:

	<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Numerator for basic and diluted earnings per share - Net income available to holders of Ordinary shares:	\$ 6,229	\$ 4,462

2. Denominator (number of shares in thousands):

	<b>six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Denominator for basic net loss per share - Weighted average number of shares	55,262	54,812
Add-employee stock options	753	803
Denominator for diluted net earnings per share - adjusted weighted average shares assuming exercise of options	56,015	55,615

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 12:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION**

The Company applies ASC 280, "Segment Reporting" ("ASC 280"). Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker. Segments are managed separately and can be described as follows:

Fixed Networks provides advanced fixed broadband satellite communication networks, satellite communication systems and associated professional services and comprehensive turnkey solutions and fully managed satellite network services solutions. The Company's customers are service providers, satellite operators, mobile network operators, or MNOs, telecommunication companies, or Telcos, and large enterprises, consumers and governments worldwide. In addition, it includes the Company's network operation and managed satellite network services solutions in Peru and Colombia.

Mobility Solutions provides advanced on-the-move satellite communications equipment, systems and solutions, including airborne, maritime and ground-mobile satellite systems and solutions. The Company's product portfolio comprises of high-speed modems, high performance on-the-move antennas and high efficiency, high power SSPAs and BUCs. The Company's customers are service providers, system integrators, defense and homeland security organizations, as well as other commercial entities worldwide.

Terrestrial Infrastructure Projects includes the Company's construction of fiber network in Peru.

a. Information on the reportable segments:

1. The measurement of the reportable operating segments is based on the same accounting principles applied in these financial statements which includes certain corporate overhead allocations.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**U.S. dollars in thousands**

**NOTE 12:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)**

2. Financial data relating to reportable operating segments:

	<b>Six months ended June 30, 2019</b>			
	<b>Fixed Networks</b>	<b>Mobility Solutions</b>	<b>Terrestrial Infrastructure Projects</b>	<b>Total</b>
Revenues	\$ 66,836	\$ 43,499	\$ 11,459	\$ 121,794
Cost of revenues	39,821	22,983	13,435	76,239
<b>Gross profit (loss)</b>	<b>27,015</b>	<b>20,516</b>	<b>(1,976)</b>	<b>45,555</b>
Research and development, net	5,323	10,075	-	15,398
Selling and marketing	7,673	3,590	25	11,288
General and administrative	5,635	3,114	778	9,527
<b>Operating income (loss)</b>	<b>8,384</b>	<b>3,737</b>	<b>(2,779)</b>	<b>9,342</b>
Financial expenses, net				1,400
<b>Income before taxes</b>				<b>7,942</b>
Taxes on income (benefit)				1,713
<b>Net income</b>				<b>6,229</b>
Depreciation and amortization Expenses	<u>\$ 3,304</u>	<u>\$ 2,340</u>	<u>\$ 37</u>	<u>\$ 5,681</u>

  

	<b>Six months ended June 30, 2018</b>			
	<b>Fixed Networks</b>	<b>Mobility Solutions</b>	<b>Terrestrial Infrastructure Projects</b>	<b>Total</b>
Revenues	\$ 73,842	\$ 45,778	\$ 14,262	\$ 133,882
Cost of revenues	46,595	26,279	17,179	90,053
<b>Gross profit (loss)</b>	<b>27,247</b>	<b>19,499</b>	<b>(2,917)</b>	<b>43,829</b>
Research and development, net	5,856	10,064	-	15,920
Selling and marketing	8,706	2,857	153	11,716
General and administrative	5,731	2,144	514	8,389
<b>Operating income (loss)</b>	<b>6,954</b>	<b>4,434</b>	<b>(3,584)</b>	<b>7,804</b>
Financial expenses, net				2,188
<b>Income before taxes</b>				<b>5,616</b>
Taxes on income (benefit)				1,154
<b>Net income</b>				<b>4,462</b>
Depreciation and amortization Expenses	<u>\$ 3,365</u>	<u>\$ 3,898</u>	<u>\$ 59</u>	<u>\$ 7,322</u>



**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**U.S. dollars in thousands**

**NOTE 12:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)**

b. Disaggregation of Revenues:

Following is a summary of revenues by geographic areas. Revenues attributed to geographic areas, based on the location of the end customers and in accordance with ASC 280, are as follows:

	Six months ended June 30,	
	2019	2018
Latin America	\$ 36,528	\$ 54,670
Asia and Asia Pacific	27,432	17,240
United States	46,076	45,773
Europe	11,758	16,199
	<u>\$ 121,794</u>	<u>\$ 133,882</u>

c. The Company's long-lived assets are located as follows:

Property and Equipment, net:

	June 30,	December 31,
	2019	2018
Israel	\$ 63,024	\$ 64,018
Latin America	4,502	4,564
United States	5,365	5,620
Europe	9,086	9,117
Other	489	1,084
	<u>\$ 82,466</u>	<u>\$ 84,403</u>

d. The table below represents the revenues from major customers:

	Six months ended June 30,	
	2019	2018
Customer A	17%	12%
Customer B	*)	11%
Customer C	*)	16%

\*) Less than 10%

Customer A is located in North America, Customer B is located in Peru and Customer C is located in Colombia.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

U.S. dollars in thousands

**NOTE 13:- RELATED PARTY BALANCES AND TRANSACTIONS**

- a. The Company entered into a number of agreements for the purchase of infrastructure, construction and services from C. Mer Industries Ltd. ("C. Mer"), a publicly traded company in Israel (TASE). The Company's controlling shareholder, FIMI Opportunity Funds ("FIMI"), holds approximately 36.6% of C. Mer's share capital and representatives of FIMI serve on C. Mer's board of directors.
- b. In December 2015, the Company entered into a memorandum of understanding with Orbit Communication Systems, ("Orbit"), a publicly traded company (TASE), for development and manufacture of antenna for an aggregate amount of approximately \$1,750. The memorandum specifies prices per additional product units ordered in the future by the Company. In August 2017, FIMI acquired approximately 33.4% of Orbit's share capital and representatives of FIMI serve on Orbit's board of directors.
- c. Transactions with the related parties:

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>
Cost of revenues of products	\$ 1,276	\$ 348
Research and development	\$ -	\$ 101

- d. Balances with the related parties:

	<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>
Advance payments	\$ -	\$ 528
Other receivables	\$ 17	\$ -
Trade payables	\$ -	\$ 475
Accrued expenses	\$ 2,022	\$ 1,578

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS****A. Operating Results**

*The following discussion and analysis of our financial condition as of June 30, 2019 and results of operations for the six months ended June 30, 2019 and June 30, 2018 should be read together with our condensed interim consolidated financial statements and related notes included elsewhere in this filing and our audited consolidated financial statements included in our Annual Report on Form 20-F for the year ended December 31, 2018. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this filing and in Annual Report on Form 20-F and other filings with the U.S. Securities and Exchange Commission.*

**Introduction**

We are a global provider of satellite-based broadband communications. We design and manufacture ground-based satellite communications equipment, and provide comprehensive solutions and end-to-end services, powered by our e technology. Our portfolio comprises a cloud based satellite network platform, Very Small Aperture Terminals, or VSATs, amplifiers, high-speed modems, on-the-move antennas and high power Solid State Amplifiers, or SSPAs, and Block Upconverters, or BUCs. Our solutions support multiple applications with a full portfolio of products to address key applications including broadband access, cellular backhaul, enterprise, in-flight connectivity, maritime, trains, defense and public safety, all while meeting stringent service level requirements. We also provide connectivity services, internet access and telephony, to enterprise, government and residential customers utilizing both our own networks, and also other networks that we install, mainly based on Build, Operate and Transfer, or BOT contracts. We also provide managed network services over VSAT networks owned by others.

We have a large installed base and have shipped more than 1.5 million satellite terminals to customers in approximately 90 countries on six continents since 1989. We have twenty sales and support offices worldwide, four network operation centers, or NOCs and five R&D centers. Our products are primarily sold to communication service providers and operators that use satellite communications to serve enterprise, government and residential users. We also provide services directly to end-users in certain countries.

We operate in three business segments, comprised of our Fixed Networks, Mobility Solutions and Terrestrial Infrastructure Projects, as follows:

- Fixed Networks provides advanced fixed broadband satellite communication networks, satellite communication systems, and associated professional services and comprehensive turnkey solutions and fully managed satellite network services solutions. Our customers are service providers, satellite operators, mobile network operators, or MNOs, telcos, and large enterprises, consumers and governments worldwide. In addition, it includes our network operation and managed satellite network services activity in Peru and Colombia. We focus on high throughput satellite, or HTS, opportunities worldwide, with focus on cellular backhaul, and are driving meaningful partnerships with satellite operators to leverage our technology and breadth of services to deploy and operate the ground-based satellite communication networks
  - Mobility Solutions provides advanced on-the-move satellite communications equipment, systems and solutions, including airborne, maritime and ground-mobile satellite systems and solutions. This segment provides solutions for land, sea and air connectivity, while placing major focus on In-Flight Connectivity, or IFC, with our unique leading technology as well as defense and homeland security activities. Our product portfolio comprises of high-speed modems, high performance on-the-move antennas and high efficiency, high power SSPAs and BUC. Our customers are service providers, system integrators, defense and homeland security organizations, as well as other commercial entities worldwide.
  - Terrestrial Infrastructure Projects provides network infrastructure construction of the fiber and microwave network of National Telecommunications Program (Programa Nacional de Telecomunicaciones) or PRONATEL (previously FITEL) in Peru.
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## **Explanation of Key Income Statement Items**

### *Revenues*

We generate revenues mainly from the sale of products, including construction of networks, from services for satellite-based communications networks and from providing connectivity, internet access and telephony services to enterprise, government and residential customers under large-scale contracts that utilize both our own networks and also other networks that we install, mainly based on BOT contracts. These large-scale contracts sometimes involve the installation of thousands of VSATs or massive fiber-optic transport and access networks. Sales of products includes principally the sale of VSATs, hubs, SSPAs, low-profile antennas and on-the-Move / on-the-Pause terminals and the construction phase of large-scale projects. Service revenues include access to and communication via satellites, or space segment, installation of network equipment, telephone services, internet services, consulting, on-line network monitoring, network maintenance and repair services. We sell our products primarily through our direct sales force and indirectly through resellers or system integrators. Sales consummated by our sales force and sales to resellers or system integrators are considered sales to end-users.

### *Costs and Operating Expenses*

Cost of revenues, for both products and services, includes the cost of system design, equipment, including inventory write-off costs, satellite capacity, salaries and related costs, allocated overhead costs, depreciation and amortization, customer service, interconnection charges and third party maintenance and installation.

Our research and development expenses, net of grants received, consist of salaries and related costs, raw materials, subcontractor expenses, related depreciation costs and overhead allocated to research and development activities.

Our selling and marketing expenses consist primarily of salaries and related costs, commissions earned by sales and marketing personnel, commissions to agents, trade show expenses, promotional expenses and overhead costs allocated to selling and marketing activities, as well as depreciation expenses and travel costs.

Our general and administrative expenses consist primarily of salaries and related costs, allocated overhead costs, office supplies and administrative costs, bad debts, fees and expenses of our directors, depreciation, and professional service fees, including legal, insurance and audit fees, net of rental income.

Our operating results are significantly affected by, among other things, the timing of contract awards and the performance of agreements. As a result, our revenues and income (loss) may fluctuate substantially from quarter to quarter, and we believe that comparisons over longer periods of time may be more meaningful. The nature of certain of our expenses is mainly fixed or partially fixed and any fluctuation in revenues will generate a significant variation in gross profit and net income (loss).

### **Critical Accounting Policies and Estimates**

The preparation of the financial information in conformity with generally accepted accounting principles requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, mainly related to trade receivables, inventories, deferred charges, long-lived assets, intangibles and goodwill, revenues, stock based compensation relating to options and contingencies. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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Please refer to our discussion of critical accounting policies in our Annual Report on Form 20-F for the fiscal year ended December 31, 2018 for a discussion about those policies that we believe are the most important to the understanding of our financial condition and results of operations as such policies affect our more significant judgments and estimates used in the preparation of the financial information included in this interim report. Results for the six months ended June 30, 2019 are not necessarily indicative of results that may be expected for the year ending December 31, 2019.

Effective on January 1, 2019, we adopted Accounting Standard Update (ASU) 2016-02, Leases (“Topic 842” or “ASC 842”). Using the modified retrospective approach, by applying the new standard to all leases existing at the date of initial application. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 840. See Note 2 (d) of Notes to interim consolidated financial statements. Except of the adoption of Topic 842, there have been no changes to our critical accounting policies and estimates described in our annual report on Form 20-F for the year ended December 31, 2018.

**Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018**

**Revenues.** Revenues for the six months ended June 30, 2019 and 2018 for our three segments were as follows:

	<b>Six Months Ended</b>		<b>Percentage</b>	<b>Six Months Ended</b>	
	<b>June 30,</b>			<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>		<b>2019</b>	<b>2018</b>
	<b>U.S. dollars in</b>		<b>change</b>	<b>Percentage of</b>	
	<b>thousands</b>		<b>Unaudited</b>	<b>revenues</b>	
	<b>Unaudited</b>		<b>Unaudited</b>	<b>Unaudited</b>	
Fixed Networks	66,836	73,842	(9.5)%	54.9%	55.2%
Mobility Solutions	43,499	45,778	(5.0)%	35.7%	34.2%
Terrestrial Infrastructure Projects	11,459	14,262	(19.6)%	9.4%	10.6%
<b>Total</b>	<b>121,794</b>	<b>133,882</b>	<b>(9)%</b>	<b>100.0%</b>	<b>100.0%</b>

Our total revenues for the six months ended June 30, 2019 and 2018 were \$121.8 million and \$133.9 million, respectively. The decrease in 2019 is mainly attributable to a decrease of \$7.0 million in Fixed Networks revenues, \$2.3 million in Mobility Solutions revenues and \$2.8 million in Terrestrial Infrastructure Projects revenues.

The decrease in our Fixed Networks revenues is primarily attributable to lower sales in the Latin America region especially in Colombia mainly due to completion of our project for the Colombian Ministry of Information Technologies and Communications.

The decrease in Mobility Solutions revenues is primarily attributable to decrease in sales related to defense activities.

The decrease in Terrestrial Infrastructure Projects revenues is attributable to the expected decline in revenues as the first three awarded PRONATEL Regional Projects (Huancavelica, Ayacucho, Apurimac) are nearing the end of their construction phase, coupled with slower than expected progress and slower final acceptance of these projects by PRONATEL than we anticipated.

**Gross profit.** The gross profit and the gross margin of our three segments for the six months ended June 30, 2019 and 2018 was as follows:

	<b>Six Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>U.S. dollars in thousands</b>		<b>Percentage of revenues</b>	
	<b>Unaudited</b>		<b>Unaudited</b>	
Fixed Networks	27,015	27,247	40.4%	36.9%
Mobility Solutions	20,516	19,499	47.2%	42.6%
Terrestrial Infrastructure Projects	(1,976)	(2,917)	(17.2)%	(20.5)%
<b>Total</b>	<b>45,555</b>	<b>43,829</b>	<b>37.4%</b>	<b>32.7%</b>

Our gross profit is affected year-to-year by the mix of our products sold, the mix of revenues between products and services, the regions in which we operate, the size of our transactions and the timing of when such transactions are consummated. Moreover, from time to time we may have large-scale projects which can cause material fluctuations in our gross profit. We recognize revenue from the PRONATEL Regional Projects using the percentage-of-completion method, and as such any changes to our estimated profits in these projects may cause material fluctuations in our gross profit. As such, we are subject to significant year-to-year fluctuations in our gross profit.

Our gross profit margin increased to 37.4% in the six months ended June 30, 2019 from 32.7% in the same period of 2018. The increase in our gross profit margin in the six months ended June 30, 2019 is as a result of the following:

The increase in the Fixed Networks gross profit margin is mainly attributable to better revenue mix in addition to the resolution of a dispute with one of our vendors in Colombia and lower inventory write offs in the first six months of 2019 compared to 2018.

The increase in the gross profit margin of the Mobility Solutions is mainly attributable to a decrease in amortization expenses resulting from the end of useful life of some of our acquired intangible assets and due to higher revenue volume.

In the Terrestrial Infrastructure Projects, the increase in the gross profit margin is mainly attributable to the mix of revenue between the different PRONATEL regions and delays in some of our PRONATEL Regional Projects which resulted in additional project costs and lower revenue in 2018.

**Operating expenses:**

	Six Months Ended		Percentage change Unaudited
	June 30,		
	2019	2018	
	U.S. dollars in thousands		
	Unaudited		
<b>Operating expenses:</b>			
Research and development, net	15,398	15,920	(3.3)%
Selling and marketing	11,288	11,716	(3.6)%
General and administrative	9,527	8,389	13.6%
<b>Total operating expenses</b>	<b>36,213</b>	<b>36,025</b>	<b>0.5%</b>

Our research and development expenses are incurred by our Fixed Networks and Mobility Solutions segments. Research and development expenses, net decreased by approximately \$0.5 million in the six months ended June 30, 2019 compared to 2018. This decrease is mainly attributable to lower salary related expenses in our Fixed segment and higher government grants which reduced our research and development expenses.

Selling and marketing expenses decreased by approximately \$0.4 million in the six months ended June 30, 2019 compared to 2018. The decrease is mainly due to a decrease in variable expenses.

General and administrative expenses increased by approximately \$1.1 million in the six months ended June 30, 2019 compared to 2018. This increase is mainly attributable to non-cash stock-based compensation expenses resulting from option modification, salary related expenses mainly as a result of severance expenses due to an internal re-organization and higher bad debt expenses compared to the six months period ended June 30, 2018.

**Financial expenses, net.** In the six months ended June 30, 2019 and 2018, we had financial expenses, net of approximately \$1.4 million and \$2.2 million, respectively. The reduction in financial expenses, net is mainly due to higher interest income on outstanding cash balances.

**Taxes on income.** Taxes on income are dependent upon where our profits are generated, such as the location and taxation of our subsidiaries as well as changes in deferred tax assets and liabilities recorded mainly as part of business combinations and changes in valuation allowance attributable to changes in our profit estimates in different regions. In the six months ended June 30, 2019 we had tax expenses of approximately \$1.7 million compared to tax expenses of approximately \$1.2 million in the six months ended June 30, 2018.

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## Variability of Quarterly Operating Results

Our revenues and profitability may vary from quarter to quarter and in any given year, depending primarily on the sales mix of our family of products and the mix of the various components of the products, sale prices, and production costs, as well as on entering into new service contracts, the termination of existing service contracts, or different profitability levels between different service contracts. Sales of our products to a customer typically consist of numerous VSATs and related hub equipment, SSPAs, BUCs, and low-profile antennas, which carry varying sales prices and margins.

Annual and quarterly fluctuations in our results of operations may be caused by the timing and composition of orders by our customers and the timing of our ability to recognize revenues. Our future results may also be affected by a number of factors, including our ability to continue to develop, introduce and deliver new and enhanced products on a timely basis and expand into new product offerings at competitive prices, to integrate our recent acquisitions, to anticipate effectively customer demands and to manage future inventory levels in line with anticipated demand. Our results may also be affected by currency exchange rate fluctuations and economic conditions in the geographical areas in which we operate. In addition, our revenues may vary significantly from quarter to quarter as a result of, among other factors, the timing of new product announcements and releases by our competitors and us. We cannot be certain that revenues, gross profit and net income (or loss) in any particular quarter will not vary from the preceding or comparable quarters. Our expense levels are based, in part, on expectations as to future revenues. If revenues are below expectations, operating results are likely to be adversely affected. In addition, a substantial portion of our expenses are fixed (e.g. space segment, lease payments) and adjusting expenses in the event revenues drop unexpectedly often takes considerable time. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Due to all of the foregoing factors, it is possible that in some future quarters our revenues or operating results will be below the expectations of public market analysts or investors. In such event, the market price of our shares would likely be materially adversely affected.

## Impact of Inflation and Currency Fluctuations

While most of our sales and service contracts are in U.S. dollars or are linked to the U.S. dollar and most of our expenses are in U.S. dollars and NIS, portions of our projects in Latin America as well as our operation in Australia, Asia and Europe are linked to their respective local currencies. The foreign exchange risks are often significant due to fluctuations in local currencies relative to the U.S. dollar.

The influence on the U.S. dollar cost of our operations in Israel relates primarily to the cost of salaries in Israel, which are paid in NIS and constitute a substantial portion of our expenses in NIS. In the first six months of 2019, the rate of inflation in Israel was 0.9% and the U.S. dollar appreciated in relation to the NIS at a rate of 4.8%, from NIS 3.748 per \$1 on December 31, 2018 to NIS 3.566 per \$1 on June 30, 2019. If future inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of such devaluation lags behind increases in inflation in Israel, our results of operations may be materially adversely affected. In 2019 and 2018, in order to limit these risks, we entered into hedging agreements to cover certain of our NIS to U.S. dollar exchange rate exposures.

Our monetary balances that are not linked to the U.S. dollar impacted our financial expenses during the 2019 and 2018 periods. This is due to heavy fluctuations in currency rates in certain regions in which we do business, mainly in Latin America, Australia and Europe. There can be no assurance that our results of operations will not be materially adversely affected by other currency fluctuations in the future.

## Liquidity and Capital Resources

Since our inception, our financing requirements have been met through cash from funds generated by private equity investments, public offerings, issuances of convertible subordinate notes, bank loans and credit facilities, operations, as well as funding from research and development grants. We have used available funds primarily for working capital, capital expenditures and strategic investments.

As of June 30, 2019, we had cash and cash equivalents of \$39.9 million, short-term and long-term restricted cash of \$27.2 million and short-term restricted cash held in trustees' accounts of \$2.4 million. As of December 31, 2018, we had cash and cash equivalents of \$67.4 million, short-term and long-term restricted cash of \$32.5 million and short-term restricted cash held in trustees' accounts of \$4.3 million.

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We believe that our working capital is sufficient for our present requirements over the next 12 months.

As of June 30, 2019, our long-term debt was approximately \$8.3 million, comprised of long-term loans of \$4.0 million and current maturities of long-term loans of \$4.3 million. The long term loans primarily consist of a loan that was received in December 2010 in the amount of \$40 million from First International Bank of Israel, or FIBI, which bears interest of 4.77%. As of June 30, 2019, the principal outstanding balance of this loan was \$8 million.

In addition, in connection with the PRONATEL Regional Projects, we were required to post certain advance payment guarantees and performance guarantees with PRONATEL. These requirements were principally satisfied through surety bonds issued by Amtrust Europe Limited, or Amtrust, for the benefit of PRONATEL, through a Peruvian bank as well as through the issuance of bank guarantees by FIBI and by The Hong Kong and Shanghai Banking Corporation, or HSBC (also through a Peruvian bank). Under the arrangements with FIBI, HSBC and Amtrust, we are required to observe certain conditions, including the requirement to maintain an amount of restricted cash. As of June 30, 2019, we were in compliance with these requirements. Under the provisions of our agreements with FIBI and HSBC, we undertook to satisfy certain financial and other covenants. As of June 30, 2019, we were in compliance with these covenants. Our credit and guarantee agreements also contain various restrictions and limitations that may impact us. These restrictions and limitations relate to incurrence of indebtedness, contingent obligations, negative pledges, liens, mergers and acquisitions, change of control, asset sales, dividends and distributions, redemption or repurchase of equity interests, certain debt payments and modifications of loans and investments. The agreements also stipulate a floating charge on our assets to secure fulfillment of our obligations to FIBI and HSBC as well as other pledges, including a fixed pledge, on certain assets and property.

The following table summarizes our cash flows for the periods presented:

	<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>U.S. dollars in thousands</b>	
	<b>Unaudited</b>	
Net cash (used in) provided by operating activities	(2,420)	18,434
Net cash used in investing activities	(3,587)	(5,014)
Net cash used in financing activities	(28,720)	(3,676)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	21	(709)
Net increase (decrease) in cash, cash equivalents and restricted cash	(34,706)	9,035
Cash, cash equivalents and restricted cash at beginning of the period	104,204	86,757
Cash, cash equivalents and restricted cash at end of the period	69,498	95,792

Our cash, cash equivalents and restricted cash decreased by approximately \$34.7 million during the six months ended June 30, 2019 as a result of the following:

*Operating activities.* Cash used in our operating activities was approximately \$2.4 million in the six months period ended June 30, 2019 compared to cash provided by operating activities of approximately \$18.4 million in the six months period ended June 30, 2018. The cash used in our operating activities during the first six months of 2019 was primarily attributable to our operations in Peru while in the same period of 2018 we generated cash from our operations in Peru.

*Investing activities.* Cash used in investing activities was approximately \$3.6 million in the six months period ended June 30, 2019 compared to approximately \$5.0 million in the six months period ended June 30, 2018. The cash used in our operating activities during 2019 was derived from purchase of property and equipment.

*Financing activities.* Cash used in financing activities was approximately \$28.7 million in the six months period ended June 30, 2019 compared to cash used in financing activities of approximately \$3.7 million in the six months period ended June 30, 2018. The cash used in financing activities is primarily due to a dividend payment to shareholders and repayments of long term loans.