



**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 0-21218

**GILAT SATELLITE NETWORKS LTD.**

(Exact name of Registrant as specified in its charter)

**ISRAEL**

(Jurisdiction of incorporation or organization)

**Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva, 4913020 Israel**

(Address of principal executive offices)

**Yael Shofar, Adv.**

**General Counsel**

**Gilat Satellite Networks Ltd.**

**Gilat House, 21 Yegia Kapayim Street,  
Kiryat Arye, Petah Tikva, 4913020 Israel**

**Tel: +972 3 929 3020**

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Ordinary Shares, NIS 0.20 nominal value	GILT	NASDAQ Global Select Market

Securities registered or to be registered pursuant of Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the annual report:

**55,493,258 Ordinary Shares, NIS 0.20 nominal value per share  
(as of December 31, 2019)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "accelerated filer," "large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

<input checked="" type="checkbox"/> U.S. GAAP	<input type="checkbox"/> International Financial Reporting Standards as issued by the International Accounting Standards Board	<input type="checkbox"/> Other
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If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

This report on Form 20-F is being incorporated by reference into our Registration Statements on Form F-3 (Registration No. 333-232597) and on Form S-8 (Registration Nos. 333-180552, 333-187021, 333-204867, 333-210820, 333-217022, 333-221546, 333-223839, 333-231442 and 333-236028).

## INTRODUCTION

We are a leading 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 innovative technology. Our portfolio includes a cloud-based satellite network platform, Very Small Aperture Terminals, or VSATs, amplifiers, high-speed modems, high performance on-the-move antennas and high efficiency, high power Solid State Amplifiers, or SSPAs, Block Upconverters, or BUCs and Transceivers. Our comprehensive solutions support multiple applications with a full portfolio of products to address key applications including broadband access, cellular backhaul, enterprise, in-flight connectivity, or IFC, maritime, trains, defense and public safety, all while meeting the most stringent service level requirements. We have a large installed base, having sold over 1.5 million satellite terminals spanning approximately 90 countries and currently have over 500 active networks.

In addition to developing and marketing ground-based satellite communications equipment, we provide managed network and services through terrestrial and satellite networks. We have proven experience in delivering complex projects and services worldwide. We offer complete turnkey integrated solutions including:

- fully managed satellite network services solutions, including services over our own networks;
- network planning and optimization;
- provision of satellite capacity;
- remote network operation;
- call center support;
- hub and field operations; and
- construction and installation of communication networks, typically on a Build, Operate and Transfer, or BOT, contract basis.

In these BOT projects, we build telecommunication infrastructure typically using fiber-optic and wireless technologies for broadband connectivity.

We have 20 sales and support offices worldwide, three Network Operation Centers, or NOCs, and five R&D centers. Our products are sold to communication service providers and operators that use satellite communications to serve enterprise, government and residential users, to mobile network operators and to system integrators that use our technology. Our solutions and services are also sold to defense and homeland security organizations. In addition, we provide services directly to end-users in various market segments, including in certain countries in Latin America.

We operate in three business segments, 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, telecommunication companies, or Telcos, and large enterprises and governments worldwide. In addition, it includes our network operation in Peru. We focus on high throughput satellites, or HTS, opportunities worldwide, with focus on cellular backhaul and enterprise, 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 the high-growth market of 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, BUCs and transceivers. 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 Programa Nacional de Telecomunicaciones (Pronatel), or PRONATEL, formerly known as Fondo De Inversion En Telecomunicaciones, or FITEL, fiber and microwave network in Peru.

Our ordinary shares are traded on the NASDAQ Global Select Market under the symbol "GILT" and on the Tel Aviv Stock Exchange, or the TASE. As used in this annual report, the terms "we", "us", "Gilat" and "our" mean Gilat Satellite Networks Ltd. and its subsidiaries, unless otherwise indicated.

### *Comtech Merger*

On January 29, 2020, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Comtech Telecommunications Corp., a Delaware corporation (“Comtech”), and Convoy Ltd., a company organized under the laws of the State of Israel and a wholly-owned subsidiary of Comtech (“Merger Sub”), pursuant to which, among other things, Comtech will acquire Gilat by way of the merger of Merger Sub with and into Gilat (the “Merger”), with Gilat surviving the Merger as a wholly-owned subsidiary of Comtech. The Merger is structured as a statutory merger pursuant to Sections 314-327 of the Companies Law, 5759-1999, of the State of Israel.

Pursuant to the terms and subject to the conditions of the Merger Agreement each ordinary share, nominal value NIS 0.20, of Gilat (the “Gilat Shares”), issued and outstanding immediately prior to the effective time of the Merger (the “Effective Time”) will be cancelled and extinguished and automatically converted into the right to receive (the “Merger Consideration”) a combination of (A) \$7.18 in cash, without interest, plus (B) 0.08425 of a validly issued, fully paid and nonassessable share of the common stock of Comtech, par value \$0.10 per share (the “Comtech Common Stock”), with cash payable in lieu of fractional shares of Comtech Common Stock, which implied on the date we entered into the Merger Agreement on January 29, 2020, a total consideration of approximately \$10.25 per Gilat Share, which implied value has declined from such date.

The Boards of Directors of Comtech and Gilat have unanimously approved the Merger and the Merger Agreement. The Merger is subject to customary closing conditions of transactions between public United States and Israeli companies, including the absence of certain legal impediments, the passage of the statutory waiting periods following the filing of the Merger proposal with the Registrar of Companies of the State of Israel, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, clearance or approval by certain other antitrust or competition authorities in other jurisdictions, the absence of a material adverse effect (as such term is defined in the Merger Agreement) with respect to Gilat and Comtech from the date of the Merger Agreement, the U.S. Securities and Exchange Commission (the “SEC”) declaring effective the registration statement on Form S-4 registering the shares of Comtech Common Stock to be issued in connection with the Merger, approval by the holders of a majority of the Gilat Shares voting at a meeting (“Shareholder Approval”), the receipt of applicable exemptions from Israeli securities law requirements, the expiration of certain statutory waiting periods under the Israeli Companies Law, the accuracy of the representations and warranties of each party (subject to certain materiality standards), and the material compliance by each party with its obligations under the Merger Agreement. The consummation of the Merger is not subject to any financing condition.

The Merger is expected to be completed in the second or third quarters of 2020.

The Merger Agreement contains customary representations, warranties and covenants of Gilat, Comtech and Merger Sub. Gilat and Comtech have each agreed to carry on their respective businesses in all material respects in the ordinary course of business consistent with past practice until the earlier of the termination of the Merger Agreement and the Effective Time. Comtech has further agreed to use reasonable best efforts to cause the Comtech Common Stock to be listed on the Tel Aviv Stock Exchange (the "TASE") immediately prior to, on or promptly following the closing date, and obtain the approval of the TASE to list the Comtech Common Stock to be issued in the Merger on the TASE.

In addition, Gilat has agreed not to (and not to authorize or permit any of its representatives to), directly or indirectly, solicit, initiate, knowingly encourage or knowingly facilitate or induce the making, submission or announcement of an acquisition proposal or any inquiry, offer, proposal, or indication of interest that constitutes or could reasonably be expected to lead to an acquisition proposal. Gilat has also agreed not to furnish non-public information to, or, subject to certain exceptions, enter into, conduct, participate or engage in negotiations with, third parties regarding an acquisition proposal.

Prior to obtaining the Shareholder Approval, the Gilat Board may, under certain circumstances, subject to the fulfillment of certain fiduciary requirements of the Gilat Board, change its recommendation that the shareholders approve the Merger Agreement or terminate the Merger Agreement to enter into a definitive written agreement providing for a superior proposal, subject to complying with notice and other specified conditions, including negotiating with Comtech in good faith modifications to the terms and conditions of the Merger Agreement and the payment of a termination fee of \$21,675,000 (the "Termination Fee").

The Merger Agreement contains certain termination rights for both Comtech and Gilat, including, among others, the right of (i) Gilat to terminate the Merger Agreement in order to enter into a definitive written agreement for an acquisition proposal that constitutes a superior proposal and (ii) Comtech to terminate the Merger Agreement as a result of the Gilat Board changing its recommendation that shareholders approve the Merger Agreement. The Merger Agreement also provides that under specified circumstances (including those in the immediately preceding sentence), Gilat may be required to pay Comtech the Termination Fee.

Concurrently with the execution of the Merger Agreement, Comtech entered into Voting Agreements (collectively, the "Voting Agreements"), with certain shareholders of Gilat, including directors and executive officers of Gilat who beneficially own Gilat Shares (each, a "Shareholder" and, collectively, the "Shareholders") representing approximately 45% of the issued and outstanding Gilat Shares in the aggregate, pursuant to which each Shareholder has agreed, among other things, to: (i) vote its beneficially owned Gilat Shares (a) in favor of the Merger and the other transactions contemplated by the Merger Agreement, including any matter necessary for the consummation of the Merger, (b) in favor of any proposal to adjourn or postpone any meeting of Gilat shareholders at which any of the foregoing matters are submitted for consideration and vote of the Gilat shareholders if there are not sufficient votes for approval of any such matters on the date on which the meeting is held, (c) against any third party acquisition transactions and (d) against any other proposal made in opposition to the adoption of the Merger Agreement or that would reasonably be expected to prevent the consummation of the Merger; and (ii) comply with certain restrictions on the disposition of such shares, in each case subject to the terms and conditions contained therein. The Voting Agreement will terminate upon the earliest to occur of (A) the consummation of the Merger, (B) the termination of the Merger Agreement pursuant to and in compliance with its terms, (C) a change of recommendation of the Gilat Board that is unanimously approved by the Gilat Board in accordance with the Merger Agreement, or (D) with respect to any Shareholder, the mutual written agreement of Comtech and such Shareholder to terminate the Voting Agreement, or at the option of such Shareholder, upon the entry without the prior written consent of such Shareholder into any amendment or modification of the Merger Agreement which results in a decrease in the Merger Consideration or imposes any material restrictions or material constraints on the payment of the consideration to be paid for the Gilat Shares.

The foregoing descriptions of the Merger Agreement and the Voting Agreement do not purport to be complete and are qualified in their entirety by reference to the Merger Agreement and the form of Voting Agreement, which were filed with the SEC on January 29, 2020 and are incorporated by reference herein. We encourage you to read the Merger Agreement and the Voting Agreement for a more complete understanding of the transactions.

The marks “Gilat®”, “SkyEdge®”, “Wavestream®”, “AeroStream™”, “Raysat®”, “SatTrooper™”, “SatRanger™” and “Spatial AdvantEdge™” and other marks appearing in this annual report on Form 20-F marked with “®” or “™” are trademarks of our company and its subsidiaries. Other trademarks appearing in this Annual Report on Form 20-F are owned by their respective holders.

This Annual Report on Form 20-F contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements reflect our current view with respect to future events and, financial results of operations. Forward-looking statements usually include the verbs, “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “understands” and other verbs suggesting uncertainty. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section which appears in Item 3D: “Key Information–Risk Factors”.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. All references in this annual report to “dollars” or “\$” are to U.S. dollars and all references in this annual report to “NIS” are to New Israeli Shekels.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this Annual Report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

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**PART I**

**ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not Applicable.

**ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

**ITEM 3: KEY INFORMATION**

**A. Selected Consolidated Financial Data**

The selected consolidated statement of operations data set forth below for the years ended December 31, 2019, 2018 and 2017, and the selected consolidated balance sheet data as of December 31, 2019 and 2018 are derived from our audited consolidated financial statements that are included elsewhere in this Annual Report. These financial statements have been prepared in accordance with U.S. GAAP. The selected consolidated statement of operations data set forth below for the years ended December 31, 2016 and 2015 and the selected consolidated balance sheet data as of December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements that are not included in this Annual Report.

The selected consolidated financial data set forth below should be read in conjunction with and is qualified entirely by reference to Item 5: "Operating and Financial Review and Prospects" and the Consolidated Financial Statements and Notes thereto included in Item 18 in this Annual Report on Form 20-F.

**Statement of Operations Data for Year ended December 31,**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>U.S. dollars in thousands, except for share data</u>				
<b>Revenues (1):</b>					
Products	185,721	173,966	214,522	214,291	128,970
Services	77,771	92,425	68,234	65,260	68,573
Total	<u>263,492</u>	<u>266,391</u>	<u>282,756</u>	<u>279,551</u>	<u>197,543</u>
<b>Cost of revenues:</b>					
Products	122,071	121,147	153,167	162,563	94,683
Services	45,544	51,207	47,094	41,498	48,635
Impairment of long lived assets	-	-	-	-	10,137
Total Cost of revenues	<u>167,615</u>	<u>172,354</u>	<u>200,261</u>	<u>204,061</u>	<u>153,455</u>
Gross profit	95,877	94,037	82,495	75,490	44,088
<b>Operating expenses:</b>					
Research and development, net	30,184	33,023	28,014	24,853	22,412
Selling and marketing	21,488	22,706	23,759	23,411	24,823
General and administrative	18,633	17,024	19,861	26,471	18,644
Restructuring costs	-	-	-	-	1,508
Goodwill impairment	-	-	-	-	20,402
<b>Total Operating expenses</b>	<u>70,305</u>	<u>72,753</u>	<u>71,634</u>	<u>74,735</u>	<u>87,789</u>
Operating income (loss)	25,572	21,284	10,861	755	(43,701)
Financial expenses, net	(2,617)	4,298	4,307	4,843	7,243
Income (loss) before taxes on income	22,955	16,986	6,554	(4,088)	(50,944)
Taxes on income (tax benefit)	(13,583)	(1,423)	(247)	1,252	1,190
Net income (loss) from continuing operations	36,538	18,409	6,801	(5,340)	(52,134)
Loss from discontinued operations (2)	-	-	-	-	(200)
Net income (loss)	<u>36,538</u>	<u>18,409</u>	<u>6,801</u>	<u>(5,340)</u>	<u>(52,334)</u>
Net income (loss) per share (basic) from continuing operations (3)	0.66	0.34	0.12	(0.10)	(1.16)
Net income (loss) per share (diluted) from continuing operations (3)	0.65	0.33	0.12	(0.10)	(1.16)
Net income (loss) per share (basic) (3)	<u>0.66</u>	<u>0.34</u>	<u>0.12</u>	<u>(0.10)</u>	<u>(1.16)</u>
Net income (loss) per share (diluted) (3)	<u>0.65</u>	<u>0.33</u>	<u>0.12</u>	<u>(0.10)</u>	<u>(1.16)</u>

**Balance Sheet Data as of December 31,**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>U.S. dollars in thousands</u>				
Working capital	102,529	105,765	92,035	92,609	60,529
Total assets	391,836	394,747	391,556	383,198	370,833
Short-term bank credit and loans and current maturities	4,096	4,458	4,479	4,617	11,542
Long term loan, net of current maturities	4,000	8,098	12,582	16,932	21,493
Other long-term liabilities (4)	13,293	7,229	9,007	9,766	11,484
Shareholders' equity	253,588	239,072	218,322	209,826	178,082

- (1) On January 1, 2018, we adopted the new revenue standards (Topic 606) using a modified retrospective method with the cumulative effect recognized in the accumulated deficit as of December 1, 2018. The consolidated financial statements for the years ended December 31, 2018 and thereafter are reported under Topic 606, whereas the consolidated financial statements for 2017 and prior years are reported under Topic 605. See Note 2z, "Recently Adopted Accounting Pronouncements" to the consolidated financial statements for more details.
- (2) In December 2013, we sold Spacenet Inc., a provider of managed network communications services utilizing satellite wireline and wireless networks and associated technology.
- (3) The loss per share for the years ended December 31, 2015 and 2014 was adjusted, following the rights offering that the Company concluded in March 2016.
- (4) On January 1, 2019, we adopted the new lease standards (Topic 842) using a modified retrospective method, 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 2z, "Recently Adopted Accounting Pronouncements" to the consolidated financial statements for more details.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable

**D. Risk Factors**

*Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be materially harmed. In that case, the value of our ordinary shares could decline substantially, and you could lose all or part of your investment.*

## **Risk Factors Relating to the Merger**

**The value of the stock portion of the Merger Consideration that Gilat shareholders will receive in the Merger has fluctuated and will continue to fluctuate over time.**

At the Effective Time, subject to the terms of the Merger Agreement, (i) each Gilat Share issued and outstanding immediately prior to the Effective Time will be converted into the right to receive a combination of (A) \$7.18 in cash, without interest, plus (B) 0.08425 of a validly issued, fully paid and nonassessable share of the Comtech Common Stock, with cash payable in lieu of fractional shares of the Comtech Common Stock, subject to applicable withholding taxes.

Time will elapse between each of the date of this Annual Report, the date on which Gilat shareholders vote to approve and adopt the Merger Proposal at the meeting and the date on which Gilat shareholders are entitled to receive cash from Comtech and the Comtech Common Stock. Due to the negative effect of the Coronavirus pandemic, the market values of the Comtech Common Stock and the Gilat Shares have significantly decreased since the announcement of the Merger and may further fluctuate as a result of a variety of factors, including the continuing effects of the Coronavirus, general market and economic conditions, changes in Comtech's or Gilat's businesses, operations and prospects, catastrophic events, both natural and man-made, and regulatory considerations. Many of these factors are outside the control of Gilat and Comtech. There will be no adjustment to the exchange ratio of the stock consideration (except for adjustments to reflect the effect of any stock split, reverse stock split, stock dividend, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to the Comtech Common Stock) and the parties do not have a right to terminate the Merger Agreement based upon changes in the market price of the Comtech Common Stock. Consequently, at the time that Gilat shareholders must decide whether to approve and adopt the Merger Proposal, they will not know the market price of the Comtech Common Stock they will receive and the market price of the Gilat Shares that they will surrender when the Merger is actually consummated. The value of the Comtech Common Stock received by Gilat shareholders upon consummation of the Merger will depend on the market price of the Comtech Common Stock at that time, and the value of the Gilat Shares surrendered by Gilat shareholders will depend on the market price of the Gilat Shares at that time, both of which have declined from the date we entered into the Merger Agreement.

***The Merger is subject to a number of conditions, some of which are outside of the parties' control, and, if these conditions are not satisfied, the Merger Agreement may be terminated, and the Merger may not be completed.***

The Merger Agreement contains a number of conditions that must be fulfilled to complete the Merger. These conditions include:

- approval of the Merger Agreement and the transactions contemplated thereby by Gilat shareholders;
- the termination or expiration of any applicable waiting period, or the assent, non-objection, exemption or approval of applicable government entities, under certain applicable export, import and sanctions laws, industrial security requirements, or antitrust laws;
- absence of any law, order, judgment, injunction or other ruling, instituted by a governmental entity of competent jurisdiction, that is then in effect of enjoining, making unlawful or otherwise prohibiting the consummation of the Merger;
- obtainment of ISA Exemptions (as such term is defined in the Merger Agreement);
- approval for listing of the shares of Comtech Common Stock to be issued in the Merger on Nasdaq, subject to official notice of issuance;
- that the registration statement on Form S-4 has been declared by the SEC to be effective under the Securities Act and no stop order suspending the effectiveness of the Form S-4 shall have been issued by the SEC and no proceedings for that purpose shall have been initiated or threatened by the SEC that have not been withdrawn;

- subject to certain materiality standards contained in the Merger Agreement, the accuracy of representations and warranties of Gilat and Comtech, respectively, and material performance by Gilat and Comtech of their respective covenants contained in the Merger Agreement; and
- the absence of a material adverse effect with respect to the other party.

The required satisfaction of the foregoing conditions could delay the completion of the Merger for a significant period of time or prevent it from occurring. Any delay in completing the Merger could cause Comtech to fail to realize some or all of the benefits that the parties expect Comtech to achieve following the Merger. Further, there can be no assurance that the conditions to the Closing will be satisfied or waived or that the Merger will be completed.

In addition, if the Merger is not completed by July 29, 2020 (subject to a potential extension to October 29, 2020), either Comtech or Gilat may choose to terminate the Merger Agreement. Comtech or Gilat may also elect to terminate the Merger Agreement in certain other circumstances, and the parties may mutually decide to terminate the Merger Agreement at any time prior to the Effective Time, before or after Gilat shareholder approval is received, as applicable.

***Failure to complete the Merger could negatively affect the share prices and the future business and financial results of either or both of Comtech and Gilat.***

If the Merger is not completed, the ongoing businesses of either or both of Comtech and Gilat may be adversely affected. Additionally, if the Merger is not completed and the Merger Agreement is terminated, in certain circumstances Gilat may be required to pay Comtech a termination fee of \$21,675,000. In addition, Comtech and Gilat have incurred and will continue to incur significant transaction expenses in connection with the Merger regardless of whether the Merger is completed. Furthermore, either or both of Comtech or Gilat may experience negative reactions from the financial markets, including negative impacts on their stock prices, or negative reactions from their customers, suppliers or other business partners, should the Merger not be completed.

The foregoing risks, or other risks arising in connection with the failure to consummate the Merger, including the diversion of management attention from conducting the businesses of the respective companies and pursuing other opportunities during the pendency of the Merger, may have a material adverse effect on the businesses, operations, financial results and stock prices of either or both of Comtech and Gilat.

***Litigation against Comtech and Gilat, or the members of the Gilat Board, could prevent or delay the completion of the Merger or result in the payment of damages following completion of the Merger.***

Various legal proceedings have been initiated by purported shareholder plaintiffs against Gilat and its directors and against Comtech and its principal executive officer with respect to the Merger and the disclosure contained in the proxy statement/registration statement on Form S-4 that was filed with the SEC on March 2, 2020 seeking approval of the Merger and certain other matters and registering the shares of Comtech Common Stock to be issued in connection with the Merger. The results of any such potential legal proceedings are difficult to predict and could delay or prevent the Merger from becoming effective in a timely manner. The existence of litigation related to the Merger could affect the likelihood of obtaining the required approval from Gilat shareholders. Moreover, any litigation could be time consuming and expensive, could divert Comtech's and Gilat's management's attention away from their respective businesses and, if any lawsuit is adversely resolved against any of Comtech, Gilat or the members of their respective boards of directors, could have a material adverse effect on Comtech's or Gilat's financial condition.

One of the conditions to the Closing is the absence of any law, order, judgment, injunction or other ruling, instituted by a governmental entity of competent jurisdiction, that is then in effect of enjoining, making unlawful or otherwise prohibiting the consummation of the Merger. Consequently, if a settlement or other resolution is not reached in any lawsuit that is filed and a claimant secures injunctive or other relief prohibiting, delaying or otherwise adversely affecting either party's ability to complete the Merger on the terms contemplated by the Merger Agreement, then such injunctive or other relief may prevent the Merger from becoming effective in a timely manner or at all.

***The Merger Agreement contains provisions that limit Gilat's ability to pursue alternatives to the Merger, could discourage a potential competing acquiror of Gilat from making an alternative transaction proposal and, in specified circumstances, could require Gilat to pay a termination fee to Comtech.***

The Merger Agreement prohibits Gilat and its representatives from soliciting, participating in negotiations with respect to or approving or recommending any third-party proposal for an alternative transaction, subject to exceptions set forth in the Merger Agreement relating to the receipt of certain unsolicited offers. If the Merger Agreement is terminated by Comtech due to a change in the Gilat Board's recommendation regarding the Merger, due to Gilat's material breach of its non-solicitation obligations, or due to Gilat accepting a superior proposal, among other reasons, then Gilat may be required to pay a termination fee of \$21,675,000 to Comtech.

These provisions could discourage a potential third-party acquiror or merger partner that might have an interest in acquiring all or a significant portion of Gilat or pursuing an alternative transaction from considering or proposing such a transaction, even if it were prepared to pay consideration with a higher per share cash or market value than the consideration to be paid in the Merger, or might result in a potential third-party acquiror or merger partner proposing to pay a lower price to Gilat shareholders than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

If the Merger Agreement is terminated and Gilat determines to seek another business combination, Gilat may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger.

***The Merger is subject to the expiration of applicable waiting periods under and the receipt of approvals, consents or clearances from U.S. and Russian antitrust regulatory authorities that may impose conditions that could have an adverse effect on Comtech or Gilat or, if not obtained, could prevent completion of the Merger.***

The Closing may be subject to the exemption or approval of applicable government entities under the antitrust laws of the United States and Russia. In deciding whether to grant the required regulatory approvals, consents or clearances, the relevant governmental entities will consider the effect of the Merger on competition within their relevant jurisdiction. The terms and conditions of the approvals, consents and clearances that are granted may impose requirements, limitations or costs or place restrictions on the conduct of Comtech's business and which may adversely affect the financial position and prospects of Comtech and its ability to achieve the cost savings and other synergies projected to result from the Merger.

Under the Merger Agreement, Comtech and Gilat have agreed to use their reasonable best efforts to obtain all necessary actions or non-actions, waivers, consents, approvals, orders and authorizations from governmental entities, as may be required under any applicable antitrust laws or otherwise and therefore may be required to comply with conditions or limitations imposed by governmental antitrust authorities. However, there can be no assurance that antitrust regulators will not impose unanticipated conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the Merger or imposing additional costs on or limiting the revenues of Comtech following the completion of the Merger and which may adversely affect the financial position and prospects of Comtech and its ability to achieve the cost savings and other synergies projected to result from the Merger.

***Until the completion of the Merger or the termination of the Merger Agreement in accordance with its terms, in consideration of the agreements made by the parties in the Merger Agreement, Gilat is prohibited from entering into certain transactions and taking certain actions that might otherwise be beneficial to Gilat and its shareholders.***

Until the Merger is completed, the Merger Agreement restricts Gilat from taking specified actions without the consent of Comtech (not to be unreasonably withheld, conditioned or delayed), and requires Gilat to carry on its business in all material respects in the ordinary course of business. These restrictions may prevent Gilat from making appropriate changes to its businesses, retaining its workforce, paying dividends or pursuing attractive business opportunities that may arise prior to the completion of the Merger.

***After the Merger, Gilat shareholders will have a significantly lower ownership and voting interest in Comtech than they currently have in Gilat, and will exercise less influence over management.***

Based on the number of Gilat Shares and shares of Comtech Common Stock issued and outstanding as of February 28, 2020, it is expected that, former Gilat shareholders will receive shares of the Comtech Common Stock in the Merger representing approximately 16.4% of the outstanding shares of the Comtech Common Stock, immediately following the Effective Time. Consequently, Gilat shareholders will have substantially less influence over the management and policies of Comtech than they currently have over Gilat.

***The executive officers and directors of Gilat have interests in the Merger that are different from, or in addition to, those of the other Gilat shareholders. Therefore, the executive officers and directors of Gilat may have a conflict of interest in recommending the Merger Proposal being voted on at the meeting.***

The directors and executive officers of Gilat have interests in the Merger that may be different from, or in addition to, those of the Gilat shareholders generally.

***The shares of Comtech Common Stock to be received by Gilat shareholders as a result of the Merger will have different rights from the Gilat Shares.***

Upon completion of the Merger, Gilat shareholders will become stockholders of Comtech and their rights as stockholders will be governed by the Comtech Charter, the Comtech Bylaws and Delaware law. The rights associated with Gilat Shares are different from the rights associated with shares of the Comtech Common Stock.

***Gilat shareholders may be subject to Israeli capital gains tax in connection with the Merger and absent receipt of a ruling or exemption, will generally be subject to Israeli tax withholding on the gross Merger Consideration.***

As a consequence of the Merger, holders of Gilat Shares will be treated as having sold their Gilat Shares in the Merger. When an Israeli company is sold, regardless of whether the consideration in the sale is cash or stock, its shareholders are generally subject to Israeli taxation. The Israeli Tax Office, or ITO, distinguishes between 'Real Capital Gain' and 'Inflationary Surplus'. The Inflationary Surplus is the portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli Consumer Price Index, or CPI, or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

The capital gains tax rate applicable to the Real Capital Gain is 25% for individuals, 30% for individuals who are Major Stockholders on the date of sale or on any date falling within the 12-month period preceding that date of sale and 23% for corporations. An additional tax at a rate of three percent on the Real Capital Gain may be imposed upon individual shareholders whose annual income from all sources that is taxable in Israel exceeds a certain amount. The Inflationary Surplus is generally exempt from tax, provided that the shares being sold were acquired after December 31, 1993.

Shareholders of a company, such as Gilat, whose shares are traded on the TASE or on a regulated market outside of Israel, who are non-Israeli residents and purchased their shares after the listing of Gilat's shares on the TASE or said regulated market outside of Israel, whichever is earlier (which means, in the case of Gilat, non-Israeli residents who purchased Gilat Shares after March 26, 1993), would generally be exempt from Israeli capital gains tax, provided that certain conditions are met (e.g., including that the capital gain is not made through a permanent establishment that the non-Israeli resident shareholder maintains in Israel). In addition, such sale may be exempt from Israeli capital gain tax (or be subject to a reduced tax rate) under the provisions of an applicable tax treaty between Israel and the seller's country of residence (subject to the receipt of a valid certificate from the Israel Tax Authority allowing for an exemption or a reduced tax rate).

Gilat has requested tax rulings from the Israel Tax Authority with respect to (i) exemption from withholding of Israeli tax on payments of Merger Consideration payable to Gilat shareholders who are non-Israeli residents and meet certain conditions, (ii) deferral of the obligation of Israeli tax resident holders of Gilat Shares to pay Israeli tax on the exchange of the Gilat Shares for the Comtech Common Stock in accordance with the provisions of Section 104H of the ITO and (iii) the application of Israeli tax withholding and other Israeli tax treatment applicable to holders of Gilat Options and shares issued to certain directors and employees under Section 102 of the ITO and to certain directors and others under Section 3(i) of the ITO. If and when the tax rulings are finalized, Gilat will issue a press release and furnish a Form 6-K or other document with the SEC describing the scope of the exemptions provided by the rulings. There can be no assurance that such rulings will be granted before the Closing or at all or that, if obtained, such rulings will be granted under the conditions requested by Gilat.

Whether or not a particular shareholder is actually subject to Israeli capital gains tax in connection with the Merger, absent receipt by Gilat of a tax ruling from the Israel Tax Authority prior to Closing, all Gilat shareholders will be subject to Israeli tax withholding at the rate of 25% (for individuals) and 23% (for corporations) on the gross Merger Consideration (unless the shareholder requests and obtains an individual certificate of exemption or a reduced tax rate from the Israel Tax Authority, as described below), and Comtech or the exchange agent will withhold and deduct from the Cash Merger Consideration an amount equal to 25%, 23% or such other reduced tax rate as stipulated in the certificate obtained, as applicable, of the gross Merger Consideration received by such shareholder.

The Israeli tax withholding consequences of the Merger to Gilat shareholders and holders of certain Gilat Options and shares issued subject to Section 102 of the ITO may vary depending upon the particular circumstances of each shareholder or holder of Gilat Options or shares issued subject to Section 102 of the ITO, as applicable, and the final tax rulings issued by the Israel Tax Authority. To the extent that tax is withheld on payments to U.S. taxpayers, it is possible that such withheld taxes may not be able to be credited against such taxpayers' U.S. income tax liability. You are urged to consult with your own tax advisor for a full understanding of the tax consequences of the Merger to you, including the consequences under any applicable, state, local, foreign or other tax laws or tax treaties.

#### **Risk Factors Relating to the Combined Company Following the Merger**

*There is the possibility that Comtech, following the Merger, may be unable to successfully integrate the business of Gilat to realize the anticipated benefits of the Merger or to do so within the intended timeframe. Comtech may overestimate the synergies that will result from the Merger or underestimate the cost of implementing such synergies.*

Comtech will be required to devote significant management attention and resources to integrating the businesses and operations of Gilat with Comtech. The anticipated benefits from the Merger are based on projections and assumptions about the combined business of Gilat and Comtech, which may not materialize as expected or which may prove to be inaccurate. Comtech's ability to achieve the anticipated benefits will depend on its ability to successfully and efficiently integrate the business and operations of Gilat with those of Comtech and achieve the expected synergies. Comtech may encounter significant challenges with successfully integrating and realizing the anticipated benefits of the Merger, including the following:

- challenges managing the costs of integration and compliance;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from combining the two businesses;
- challenges integrating management teams, corporate cultures, management philosophies, strategies, operations, products and services;



- experiencing potential disruptions due to diversion of management attention uncertainty with retaining key employees, customers, suppliers and other partners of Gilat and Comtech;
- challenges in creating and enforcing uniform standards, controls, procedures, policies and information systems;
- limitations prior to the completion of the Merger on the ability of management of Gilat and Comtech to conduct planning regarding the integration of the two companies;
- challenges integrating complex systems, technology, networks and other assets of Gilat into those of Comtech in a manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- managing the increased scale and complexity of Comtech's operations resulting from the Merger;
- incurring potential unknown liabilities and unforeseen increased expenses or delays associated with the Merger, including costs to integrate Gilat; and
- experiencing potential disruptions of, or the loss of momentum in, each company's ongoing businesses.

Many of these factors will be outside of Comtech's control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact the business, financial condition and results of operations of the combined company. Even if the operations of Comtech's and Gilat's businesses are integrated successfully, there can be no assurance that Comtech will be able to realize some or all of the anticipated benefits of the Merger.

***The Merger may not be accretive, and may be dilutive, to the combined company's earnings per share, which may harm the market price of the Comtech Common Stock following the Merger.***

Gilat and Comtech currently believe the Merger will result in a number of benefits, including cost savings, operating efficiencies, and stronger demand for their respective products and services, and that the Merger will be accretive to Comtech's earnings. This belief is based, in part, on preliminary current estimates that may materially change. Comtech following the Merger could encounter additional transaction and integration-related costs or other factors such as the failure to realize all of the benefits anticipated in the Merger, a downturn in its business, or adverse changes in market conditions. All of these factors could cause dilution to Comtech's earnings per share following the Merger or decrease or delay the expected accretive effect of the Merger and cause a decrease in the price of shares of Comtech Common Stock following the Merger.

***The market price of Comtech Common Stock after the Merger will continue to fluctuate and may be affected by factors different from those affecting the Gilat Shares.***

Upon completion of the Merger, holders of Gilat Shares will become holders of Comtech Common Stock. The market price of Comtech Common Stock has declined since the announcement of the Merger and may fluctuate significantly following consummation of the Merger and holders of Gilat Shares could lose the value of their investment in Comtech Common Stock. In addition, the stock market has experienced significant price and volume fluctuations since the Merger due to the spread of the Coronavirus and its financial impact on the global economy and could continue to have a material adverse effect on the market for, or liquidity of, the Comtech Common Stock, regardless of Comtech's actual operating performance. Such fluctuations and adverse effects are being experienced in the markets as a result of the Coronavirus pandemic. In addition, Comtech's business differs in important respects from that of Gilat, and accordingly, the results of operations of the combined company and the market price of Comtech Common Stock after the completion of the Merger may be affected by factors different from those currently affecting the independent results of operations of each of Comtech and Gilat.

***The use of cash and incurrence of significant indebtedness in connection with the financing of the Merger may have an adverse impact on Comtech's liquidity, limit its flexibility in responding to other business opportunities and increase its vulnerability to adverse economic and industry conditions.***

Based on information provided by Comtech, at October 31, 2019, Comtech's balance of cash and cash equivalents was \$46.9 million and as of September 30, 2019, Gilat had approximately \$53.1 million of unrestricted cash and cash equivalents. Comtech expects to fund the acquisition of Gilat and related transaction costs through the use of unrestricted cash and cash equivalents on hand at Closing and drawing on a credit facility. The use of unrestricted cash on hand and indebtedness to finance the Merger will reduce Comtech's liquidity and could cause Comtech to place more reliance on cash generated from operations to pay principal and interest on its debt, thereby reducing the availability of its cash flow for working capital, dividend and capital expenditure needs or to pursue other potential strategic plans. The increased indebtedness may also have the effect, among other things, of limiting Comtech's ability to obtain additional financing, if needed, limiting Comtech's flexibility in the conduct of its business and making it more vulnerable to economic downturns and adverse competitive and industry conditions.

***The agreements that will govern the indebtedness to be incurred by Comtech in connection with the Merger may contain various covenants that impose restrictions on Comtech that may affect its ability to operate its business.***

The agreements that will govern the indebtedness to be incurred by Comtech in connection with the Merger will likely contain various affirmative and negative covenants that, subject to certain significant exceptions, are likely to restrict the ability of Comtech to, among other things, have liens on its property, change the nature of its business, transact business with affiliates or merge or consolidate with any other person or sell or convey certain of its assets to any one person. In addition, some of the agreements that govern the financing may contain financial covenants that may require Comtech to maintain certain financial ratios. The ability of Comtech to comply with these provisions may be affected by events beyond its control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate Comtech's repayment obligations.

***Comtech following the Merger will incur significant transaction and integration related costs in connection with the Merger.***

Comtech expects to incur costs associated with integrating the operations of Gilat following the Closing. The amount of these costs could be material to the financial position and results of operations of Comtech following the Merger. A substantial amount of such expenses will be comprised of transaction costs related to the Merger, facilities and systems consolidation costs, and employee-related costs. Comtech will also incur fees and costs related to formulating integration plans and performing integration activities. Additional unanticipated costs may be incurred in the integration of the two companies' businesses. The elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may not offset incremental transaction and other integration related costs in the near term.

***Certain Gilat counterparties may acquire certain rights upon the Merger, which could negatively affect Comtech following the Merger.***

Gilat is party to numerous contracts, agreements, licenses, permits, authorizations and other arrangements that contain provisions giving counterparties certain rights (including, in some cases, termination rights) in the event of an "assignment" of the agreement or a "change in control" of Gilat or its subsidiaries. The definitions of "assignment" and "change in control" vary from contract to contract and, in some cases, the "assignment" or "change in control" provisions may be implicated by the Merger. If an "assignment" or "change in control" occurs, a counterparty may be permitted to terminate its contract with Gilat.

Whether a counterparty would have cancellation rights in connection with the Merger depends upon the language and governing law of its agreement with Gilat. Whether a counterparty exercises any cancellation rights it has would depend on, among other factors, such counterparty's views with respect to the financial strength and business reputation of Comtech following the Merger and prevailing market conditions. Gilat cannot presently predict the effects, if any, if the Merger is deemed to constitute a change in control under certain of its contracts and other arrangements, including the extent to which cancellation rights would be exercised, if at all, or the effect on Comtech's financial condition, results of operations or cash flows following the Merger, but such effect could be material.

***Uncertainties associated with the Merger may cause a loss of employees, including senior management and key employees and may otherwise materially adversely affect the future business and operations of Comtech following the Merger.***

Comtech's success following the Merger will depend upon the ability of Comtech to retain senior management and key employees of Comtech and Gilat following the Merger. Many of Comtech and Gilat's employees are researchers, engineers and other highly skilled professionals. Comtech and Gilat operate in a highly specialized market and having skilled personnel is necessary for ensuring the supply of high quality products and services. There are only a limited number of people in the job market who possess the requisite skills, and it may be difficult for Comtech following the Merger to hire qualified personnel over time. Furthermore, certain options to purchase Gilat Shares held by Gilat employees vest in connection with the Merger, and Comtech following the Merger may need to offer similar awards and benefits to increase retention.

Current and prospective employees of Comtech and Gilat may experience uncertainty about their roles with Comtech following the Merger. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Comtech following the Merger. The loss of services of certain senior management or key employees of Gilat or the inability to hire new personnel with the requisite skills could restrict the ability of Comtech following the Merger to develop new products or enhance existing products in a timely manner, to sell products to customers, to provide competitive services or to manage the business of Comtech effectively. Also, the business, financial condition and results of operations of Comtech following the Merger could be materially adversely affected by the loss of any of its key employees, by the failure of any key employee to perform in his or her current position, or by Comtech's inability to attract and retain skilled employees.

***Following the Merger Comtech will have a more complex organizational structure, which could result in unfavorable tax or other consequences and could have an adverse effect on its net income and financial condition.***

Comtech following the Merger will operate legal entities in many countries around the world where it will conduct manufacturing, development, design and sales operations. In some countries, it will maintain multiple entities for tax or other purposes. Changes in tax laws, regulations, and related interpretations in the countries in which it operates may adversely affect its results of operations. Comtech following the Merger will have many entities globally and may have unsettled intercompany balances between some of these entities that could result, if changes in law, regulations or related interpretations occur, in adverse tax or other consequences affecting its capital structure, intercompany interest rates and legal structure.

***Comtech's results following the Merger may differ materially from those anticipated.***

Comtech's results following the Merger may be materially different from those anticipated, which could result in a material adverse effect on the business, financial condition, results of operations and prospects of Comtech following the Merger. In addition, Comtech expects to incur significant costs associated with completing the Merger and integrating the operations of Gilat, and the exact magnitude of these costs is not yet known. Furthermore, these costs may decrease the amount of capital that could be used by Comtech for other purposes.

***The Comtech Common Stock will be traded on different markets and this may result in price variations.***

Following the Merger, the shares of Comtech Common Stock will be traded on both the Nasdaq as well as the TASE. Price variations may result due to this dual listing. Trading in the Comtech Common Stock on these markets will also occur at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Given these and other factors, such as differences in exchange rates, the Comtech Common Stock may trade at different prices on the TASE and the Nasdaq. In addition, market influences in one market may influence the price in the other.

## Risks Relating to Our Business

### *Our operations and sales have been adversely affected by the impact of the Coronavirus and we are subject to further negative effects from the continued spread of the Coronavirus pandemic and other public health threats*

The ongoing Coronavirus pandemic that first surfaced in China and is spreading throughout the world has had an adverse effect on our industry and the markets in which we operate. The Coronavirus outbreak has significantly impacted the travel and aviation markets in which our significant IFC customers operate and has resulted in a slowdown of our business with some of these customers. We have experienced postponed orders and suspended decision making in other markets that are likely to be negatively affected by the Coronavirus. As a result, during the first quarter of 2020, we have experienced a significant reduction in our business and expect to record a loss for the quarter. Further, the guidance of social distancing and the requirements to work from home in key territories such as Israel, Peru, China, California, Colombia, Australia, Bulgaria and in other countries, in addition to greatly reduced travel globally, has resulted in a substantial curtailment of business activities, which has affected and is likely to continue to affect our ability to conduct fieldwork as well as deliver products and services. While the majority of our products are manufactured outside of China, certain components and materials for our products are manufactured or procured in China and we also have other operations in Asia. We are unable at this time to estimate the extent of the effect of the Coronavirus on our business. In order to mitigate the impact of the decline in business, we have adopted a plan to reduce our expenses, including a reduction in our headcount as well as other cost savings measures. This public health threat is likely to continue to adversely impact us by its negative impact on our ability to generate revenues due to reduced end-market demand from governments, enterprises and consumers, leading to order delays and cancellations. In addition, certain of our sales and support teams are unable to travel or meet with customers and the threat has caused operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruptions and shutdowns (including as a result of government regulation and prevention measures). Given the potential impact on our businesses as a result of the outbreak, the values or the recoverable amounts of certain assets subsequent to the reporting date may be less than their carrying amounts as of December 31, 2019. The potential decline in value is determined to be a non-adjusting event as management concluded that the cause of the shut down in the series of events that led to the disruptions in operations is not the outbreak itself, but rather the measures taken by the government after the reporting date. Because the outbreak may also result in uncertainties in relation to the assumptions and estimations associated with the measurement of various assets and liabilities in the financial statements that we may not have previously recognized or disclosed, the occurrence of the outbreak has certainly added additional risks that the carrying amounts of assets and liabilities may require certain adjustments within the next financial year which financial effect cannot be reasonably estimated at this stage.

### **A significant portion of our revenue in 2019 was attributable to a limited number of large scale customers.**

We depend on several large-scale contracts for a significant percentage of our revenues. In 2019, a significant portion of our revenue was attributable to our contracts with a large service provider which provides services mainly to the airline industry, a large U.S. system integrator, and with a Peruvian governmental authority with respect to six regions in Peru, or the PRONATEL Regional Projects. The agreement with the aviation service provider accounted for approximately 11% of our revenue in the year ended December 31, 2019. The agreement with our U.S. system integrator customer, accounted for approximately 12% of our revenue in the year ended December 31, 2019. The PRONATEL Regional Projects accounted for approximately 16% of our revenue in the year ended December 31, 2019. The PRONATEL Regional Projects, which were awarded to us in 2015 and in 2018, are expected to generate during their terms revenues of \$393 million and \$154 million, respectively. The expected duration of the 2015 PRONATEL Regional Projects was significantly prolonged from their scheduled delivery dates due to continued delays in the construction phase, and are expected to continue for approximately 14-15 years. See Item 4.B. – “Information on the Company – Business Overview – Terrestrial Infrastructure Projects – Overview”. If we fail to deliver in a timely manner upon any of our large contracts or if any of these or other large customers were to terminate their existing contracts with us or substantially reduce the services or quantity of products they purchase from us, our revenues and operating results could be materially adversely affected.

***Our failure to deliver upon our large-scale projects in an economical or a timely manner, or a delay in collection of payments due to us in connection with any such large-scale project could have a significant adverse impact on our operating results.***

We have been awarded a number of large-scale projects by our customers, including foreign governments, such as the Peruvian PRONATEL Regional Projects in 2015 and in 2018, and contracts with a U.S. system integrator and a large service provider in the mobility market. While we have successfully implemented large-scale network infrastructure projects and operations in rural areas, the PRONATEL Regional Projects as well as other projects are complex and require cooperation of third parties. Additionally, the delivery of our large-scale projects requires us to invest significant funds in order to obtain bank guarantees and requires us to incur significant expenses before we receive full payment from our customers. Failure to execute these projects in an economical manner within the projects' budgets and schedules could result in significant penalties, impact our ability to receive and recognize the expected revenues, reduce our cash balance, and cause us losses, which would significantly adversely impact our operating results. The expected duration of the 2015 PRONATEL Regional Projects was significantly prolonged from their scheduled delivery dates, due to continued delays in the construction phase and is expected to continue for approximately 14-15 years. Our general practice in the Regional Projects is to resolve delays in the projects schedules and other relevant issues through entering into an amendment agreed upon with our customer, as we have already done with respect to three PRONATEL Regional Projects. If we fail to reach such agreement with the customer for the other projects, we could incur significant penalties. The construction phase of the first three PRONATEL Regional Projects that were awarded to us in March 2015 were accepted by PRONATEL during 2019. Failure to complete the remaining three projects in a timely manner and pursuant to the updated schedule, will have a significant adverse effect on our business and financial results.

***In the past, we incurred major losses and we may not be able to continue to operate profitably in the future.***

While we have operated profitably in the last three fiscal years, we incurred major losses in years prior to fiscal 2017 and as of December 31, 2019, we have an accumulated deficit of \$671 million. We cannot assure you that we can operate profitably in the future. If we do not continue to operate profitably, our share price will decline, and the viability of our company will be in question.

***Our available cash balance may decrease in the future if we cannot generate cash from operations.***

Our cash, cash equivalents including restricted cash as of December 31, 2019 were \$102 million compared to \$104.2 million as of December 31, 2018. Our positive cash flow (including restricted cash) from operating activities was approximately \$34.8 million in the year ended December 31, 2019 compared to positive cash flow from operating activities of \$32.0 million in the year ended December 31, 2018 and negative cash flow of \$17.2 million in the year ended December 31, 2017. If we do not generate sufficient cash from operations in the future, including from our large-scale projects, our cash balance will decline, and the unavailability of cash could have a material adverse effect on our business, operating results and financial condition.

The delivery of our large-scale projects requires us to invest significant funds in order to obtain bank guarantees and may require us to incur significant expenses before we receive full payment from our customers. This applies mainly to the PRONATEL Regional Projects awarded to us in 2015 and in 2018, which are expected to generate \$393 million and \$154 million in revenues respectively, over a period of 13-15 years. We have used the advance payment received from PRONATEL as well as internal cash resources in order to finance the PRONATEL Regional Projects, and may need to significantly increase the internal cash resources used for further investment in the PRONATEL Regional Projects. We have used surety bonds and our internal resources in order to provide the required bank guarantees for the PRONATEL Regional Projects, which were approximately \$99.3 million in the aggregate as of December 31, 2019. If we fail to obtain the necessary funding or if we fail to obtain such funds on favorable terms, we will not be able to meet our commitments and our cash flow and operational results may be adversely affected.

***If the satellite communications markets fail to grow, our business could be materially harmed.***

A number of the markets for our products and services in the satellite communications area, including high throughput satellite and commercial on the move products, have emerged in recent years. In addition, over the next few years the market is expected to move towards non-geostationary orbits, or NGSO, constellation networks and this may reduce interest and investments in geostationary satellite technology and services. Because these markets are constantly changing, it is difficult to predict the rate at which these markets will grow or decline. Although we have entered into a multi-million-dollar contract with large Satellite Operator for development and deployment of VSAT platform for Medium Earth Orbit, or MEO, communications system there is no assurance that we will be able to further expand our penetration into the non-geostationary orbit, or NGSO market. We also believe that there are many companies that are seeking ways to improve the ability of existing terrestrial infrastructure, such as fiber optic cable and point-to-point microwave, to transmit signals. Any significant improvement or increase in the amount of terrestrial capacity, particularly with respect to the existing fiber optic cable infrastructure and point-to-point microwave, may cause our fixed networks customers to shift their transmissions to terrestrial capacity or make it more difficult for us to obtain new customers. If fiber optic cable networks or other terrestrial-based high-capacity transmission systems are available to service a particular point, that capacity, when available, is generally less expensive than satellite capacity. As terrestrial-based telecommunications services expand, demand for some fixed satellite-based services may be reduced.

If the markets for commercial satellite communications products fail to grow, or if we fail to further expand our penetration into the NGSO market operating in low earth orbits, or LEO, our business could be materially harmed. Conversely, growth in these markets could come at the expense of geostationary satellite capacity markets which in turn could materially harm our business and impair the value of our shares. Specifically, we derive most of our revenues from sales of satellite based communications networks and related equipment and provision of services related to these networks and products a significant decline in this market or the replacement of VSAT and other satellite based technologies by an alternative technology could materially harm our business and impair the value of our shares.

***Because we compete for large-scale contracts in competitive bidding processes, losing a small number of bids or a decrease in the revenues generated from our large-scale projects could have a significant adverse impact on our operating results.***

A significant portion of our revenues is derived from large-scale contracts that we are awarded from time to time in competitive bidding processes. The bidding process sometimes requires us to make significant investments upfront, while the final award is not assured. These large-scale contracts sometimes involve the installation of thousands of VSATs or massive fiber-optic transport and access networks or production of customized products. The number of major bids for these large-scale contracts for satellite-based networks and massive telecommunications infrastructure projects in any given year is limited and the competition is intense. Losing or defaulting on a relatively small number of bids each year could have a significant adverse impact on our operating results.

***A large portion of our large-scale contracts are with governments or large governmental agencies in Latin America and any volatility in the political or economic climate or any unexpected unilateral termination or suspension of payments could have a significant adverse impact on our business.***

In March and December 2015, the Peruvian government awarded us the PRONATEL Regional Projects under four separate bids for the construction of networks, operation of the networks for a defined period and their transfer to the government. In 2018, we were awarded two additional PRONATEL Regional Projects. These awards are expected to generate revenues of \$547 million over a period of 13-15 years. The Colombian Ministry of Information Technologies and Communications, or Ministry of ITC, awarded us a contract in December 2013 that concluded in the second quarter of 2019. The total amount of revenue generated from this contract, from its initiation and including all its extensions, is approximately 312 billion Colombian Pesos (approximately \$103 million).

Agreements with the governments in these countries typically include unilateral early termination clauses and involve other risks such as the imposition of new government regulations and taxation that could pose additional financial burdens on us. Changes in the political or economic situation in these countries can result in the early termination of our business there, or materially adversely affect our ability to successfully deliver on time. Any termination of our business in any of the aforementioned countries could have a significant adverse impact on our business. See Item 4.B. – “Information on the Company – Business Overview – Terrestrial Infrastructure Projects – Overview”.

***We submit bids on large-scale contracts through regulated bid processes with governments and large governmental agencies and our awards can be challenged by losing parties. If successful, such challenges could significantly adversely affect our business and financial results.***

Our awards in bids submitted to governments and large governmental agencies can be challenged by losing parties, and if such challenges succeed our financial results will be adversely affected. In 2018, we were awarded two additional PRONATEL Regional Projects in Peru, with expected revenues of approximately \$154 million over approximately 13-15 years. Two of the three entities comprising the losing bidder consortium, which was disqualified by the bid issuer, applied for cancellation of the bid and obtained a preliminary injunction against the award. This matter is currently pending a judicial decision. Based on advice of counsel, we believe that the chances of success of the application to cancel the bid are remote, yet if successful it could significantly adversely affect our business and financial results.

***Some of our large-scale customers are highly leveraged or dependent on industries affected by the Coronavirus and if any of them encounters financial difficulties, this could have a significant adverse effect on our business and financial results.***

Some of our current and potential customers, including large-scale customers who contribute significantly to our profitability, are highly leveraged and dependent on the airline industry that has been severely affected by the Coronavirus pandemic. If a major customer encounters financial difficulty, our business and operating results may be adversely affected, and we may find it difficult to collect outstanding receivables. As an example, in June 2016, our customer, Oi SA, filed for judicial reorganization in a bankruptcy petition in Brazil. Collection of any outstanding amounts due to us prior to the petition is subject to implementation of the creditor arrangements which includes a discount on the amounts due us.

***Actual results could differ from the estimates and assumptions that we use to prepare our financial statements.***

In order to prepare our financial statements in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”), our management is required to make estimates and assumptions, as of the date of the financial statements, which affect the reported values of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Areas that require significant estimates by our management include contract costs and profits, application of percentage-of-completion accounting, provisions for uncollectible receivables and customer claims, impairment of long-term assets, goodwill impairment, valuation allowance in respect of deferred tax assets, valuation of assets acquired and liabilities assumed in connection with business combinations, accruals for estimated liabilities, including litigation and insurance reserves, and stock-based compensation. Our actual results could differ from, and could require adjustments to, those estimates.

In particular, we recognize revenues generated from the PRONATEL Regional Projects using the percentage-of-completion method. Under this method, estimated revenue is recognized by applying the percentage of completion of the contract for the period (based on the ratio of costs incurred to total estimated costs of the contract) to the total estimated revenue for the contract. As a result, revisions made to the estimates of revenues and profits are recorded in the period in which the conditions that require such revisions become known and can be estimated. Although we believe that our profit margins are fairly stated and that adequate provisions for losses for fixed-price contracts are recorded in the financial statements, as required under U.S. GAAP, we cannot assure you that our contract profit margins will not decrease or that any loss provisions will not increase materially in the future.

***Tax authorities may disagree with our provisions and payments related to income taxes, deduction of withholding taxes, intercompany charges, cross-jurisdictional transfer pricing or other matters which could result in our being assessed additional taxes.***

We are subject to taxation in the United States, Israel, Latin America (mainly Peru, Brazil and Colombia) and numerous other jurisdictions, including with respect to income taxes, obligations to withhold taxes and other tax matters. Determining our provision for the various taxes requires significant management judgment. In addition, our provision for income taxes could be adversely affected by many factors, including, among other things, changes to our operating structure, changes in the amounts of earnings in jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws. We are subject to ongoing tax examinations in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing, deduction of withholding taxes or other matters and assess additional taxes. While we regularly evaluate the likely outcomes of these examinations to determine the adequacy of our provision for income taxes, there can be no assurance that the outcomes of such examinations will not have a material impact on our results of operations and cash flows. Among other factors, an ambiguity could exist in cases where services are provided across countries, such as satellite capacity which is provided from a satellite operated by a company incorporated in a certain country and is received in a different country by another company which may be required to withhold taxes on the provided capacity services. While we follow the guidelines of the relevant tax authority, where available, there is no assurance that such guidelines will ultimately be determined to be binding by the relevant authorities or acceptable in the local courts of law. In addition, we may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. Although we believe our tax estimates are reasonable, the final determination of any tax audit or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our results of operations or cash flows in the period or periods for which a determination is made. Further, subsequent legislations, guidance, court rulings or regulations that differ from our prior assumptions and interpretations, or other factors which were not anticipated at the time we estimated our tax provision, payments and deduction of withholdings could have a material adverse effect on our business, cash flow, results of operations or financial condition.

***Our insurance coverage may not be sufficient for every aspect or risk related to our business.***

Our business includes risks, only some of which are covered by our insurance. For example, in our satellite capacity agreements, we do not have a backup for satellite capacity, and we do not have indemnification or insurance in the event that our supplier's satellite malfunctions or data is lost. Satellites utilize highly complex technology and operate in the harsh environment of space and therefore are subject to significant operational risks while in orbit. The risks include in-orbit equipment failures, malfunctions and other kinds of problems commonly referred to as anomalies. Satellite anomalies include, for example, circuit failures, transponder failures, solar array failures, telemetry transmitter failures, battery cell and other power system failures, satellite control system failures and propulsion system failures. Liabilities in connection with our products, services, managed networks services or in connection with our construction and deployment projects or in connection with our premises may not be covered by insurance or may be covered only to a limited extent. Our third-party suppliers do not always have back to back insurance coverage to the same extent guaranteed by Gilat towards its customers. In addition, we are not covered by our insurance for acts of fraud or theft. Our business, financial condition and operating results could be materially adversely affected if we incur significant costs resulting from these exposures.

***We operate in the highly competitive network communications industry and may be unsuccessful in competing effectively in the future.***

We operate in a highly competitive industry of network communications, both in the sales of our products and our services. As a result of the rapid technological changes that characterize our industry, we face intense worldwide competition to capitalize on new opportunities, to introduce new products and to obtain proprietary and standard technologies that are perceived by the market as being superior to those of our competitors.



Some of our competitors have greater financial resources, providing them with greater research and development and marketing capabilities. Our competitors may also be more experienced in obtaining regulatory approvals for their products and services and in marketing them. Our relative position in the network communications industry may place us at a disadvantage in responding to our competitors' pricing strategies, technological advances and other initiatives. Our principal competitors in the supply of VSAT networks are Hughes Network Systems, LLC (owned by EchoStar Corporation), or HNS, ViaSat Inc., or ViaSat, Singapore Technologies Engineering Ltd., or ST Engineering iDirect, Newtec Cy N.V (acquired by ST Engineering iDirect), Comtech Telecommunications Corp., or Comtech and UHP Networks Inc. (acquired by Comtech), or UHP. In managed satellite network services solutions, our competitors are Speedcast International Ltd., or Speedcast, SES and Intelsat. Most of our competitors have developed or adopted different technology standards for their VSAT products.

Our low-profile in-motion ground, aero and maritime antennas target a competitive market with multiple players such as Honeywell, Astronics AeroSat Corporation, or AeroSat, Qest Quantum Electronic Systems GmbH or Qest, Tecom Industries, Inc., or Tecom, and Thinkom Solutions or Thinkom. Competitors in the defense sector include General Dynamics Satcom Technologies, Orbit Communication Systems, or Orbit, Elbit Systems Ltd., or Elbit, and L3Harris Technologies, Inc. or L-3Harris. Multiple additional competitors are entering the low-profile in-motion arena and specifically electronically steered antenna market, some with new and advanced technologies. If these new entrants and/or new technologies are able to significantly penetrate the market our business could be negatively affected.

In addition, ViaSat, SES and HNS have launched their own satellites, which enable them to offer vertically integrated solutions to their customers, which may further change the competitive environment in which we operate and could have an adverse effect on our business.

Where we primarily operate public rural telecom services (voice, data and internet) and are engaged in construction of fiber-optic transport and access networks based on wireless systems, we typically encounter competition on government subsidized bids from various service providers, system integrators and consortiums. Some of these competitors offer solutions based on VSAT technology and some on terrestrial technologies (typically, fiber-optic and wireless technologies). In addition, as competing technologies such as cellular network and fiber-optic become available in rural areas where not previously available, our business could be adversely affected. We may not be able to compete successfully against current or future competitors. Such competition may adversely affect our future revenues and, consequently, our business, operating results and financial condition.

***Our lengthy sales cycles could harm our results of operations if forecasted sales are delayed or do not occur.***

The length of time between the date of initial contact with a potential customer or sponsor and the execution of a contract with the potential customer or sponsor may be lengthy and vary significantly depending on the nature of the arrangement. During any given sales cycle, we may expend substantial funds and management resources and not obtain significant revenue, resulting in a negative impact on our operating results. In some cases, we have seen longer sales cycles in all of the regions in which we do business. In addition, we have seen projects delayed or even canceled, which would also have an adverse impact on our sales cycles. As a result, it may be difficult for us to accurately forecast sales due to the uncertainty around these projects and their award and starting periods.

***If the Merger is not completed, we may need to make acquisitions or form strategic alliances or partnerships in order to remain competitive in our market, and such acquisitions, strategic alliances or partnerships could be difficult to integrate, disrupt our business and dilute shareholder value.***

We have historically sought to acquire businesses that enhance our capabilities and add new technologies, products, services and customers to our existing businesses. In the event that the Merger is not completed, we may not be able to identify acquisition candidates on commercially reasonable terms or at all. If we make additional business acquisitions, we may not be able to successfully integrate the business acquired or we might not realize the benefits anticipated from these acquisitions, including sales growth, cost synergies and improving margins. Furthermore, we might not be able to obtain additional financing for business acquisitions, since such additional financing could be restricted or limited by the terms of our debt agreements or due to unfavorable capital market conditions.

Further, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations.

In 2010, we completed the acquisition of RaySat Antenna Systems, or RAS, a leading provider of on-the-move antenna solutions, of RaySat BG, a Bulgarian research and development center, and of Wavestream, a provider of SSPAs and BUCs. If our projection for growth in the airborne business does not materialize and we fail to obtain additional business in our Mobility Solutions segment, we would likely record an impairment of goodwill. In 2015, we performed an analysis of implied carrying value of our Wavestream subsidiary in accordance with ASC 350 and recorded goodwill impairment losses of \$20.4 million. In 2017, 2018 and 2019, no impairment losses were identified.

The risks associated with acquisitions by us include the following, any of which could seriously harm our results of operations or the price of our shares:

- issuance of equity securities as consideration for acquisitions that would dilute our current shareholders' percentages of ownership;
- significant acquisition costs;
- decrease of our cash balance;
- the incurrence of debt and contingent liabilities;
- difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
- diversion of management's attention from other business concerns;
- contractual disputes;
- risks of entering geographic and business markets in which we have no or only limited prior experience;
- potential loss of key employees of acquired organizations;
- the possibility that business cultures will not be compatible;
- the difficulty of incorporating acquired technology and rights into our products and services;
- unanticipated expenses related to integration of the acquired companies; and
- difficulties in implementing and maintaining uniform standards, controls and policies.

Any of these events would likely result in a material adverse effect on our results of operations, cash flows and financial position.

***U.S. Government spending priorities and terms may change in a manner adverse to our businesses.***

Our contracts with and sales to systems integrators in connection with government contracts in the U.S. are subject to the congressional budget authorization and appropriations process. Congress appropriates funds for a given program on a fiscal year basis, even though contract periods of performance may extend over many years. Consequently, at the beginning of a major program, the contract is partially funded, and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by Congress in future fiscal years. Department of Defense, or DoD, budgets are a function of factors beyond our control, including, but not limited to, changes in U.S. procurement policies, budget considerations, current and future economic conditions, presidential administration priorities, changing national security and defense requirements, geopolitical developments and actual fiscal year congressional appropriations for defense budgets. Any of these factors could result in a significant decline in, or redirection of, current and future DoD budgets and impact our future results of operations.

In addition, government shutdown could result in the suspension of work on contracts in progress or in payment delays which would adversely affect our future revenue and cash flow.

Our customers' products compete with other government policy needs, which may be viewed as more necessary, for limited resources and an ever-changing amount of available funding in the budget and appropriation process. Budget and appropriations decisions made by the U.S. Government are outside of our control and have long-term consequences for our business. U.S. Government spending priorities and levels remain uncertain and difficult to predict and are affected by numerous factors, including until recently sequestration (automatic, across-the-board U.S. Government budgetary spending cuts), and the purchase of our products could be superseded by alternate arrangements. A change in U.S. Government spending priorities or an increase in non-procurement spending at the expense of our programs, or a reduction in total U.S. Government spending, could have material adverse consequences on our future business.

Since we generate significant revenues from clients that bid on contracts with U.S. government agencies, our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. government, as well as by delays in bidding processes, program starts or the award of contracts or task orders under contracts.

Furthermore, in light of the current geopolitical situation, with reductions in U.S. operational presence in Iraq, Afghanistan and potentially in the Middle East, there may be additional declines in the U.S. government's demand for and use of commercial satellite services in the future. If procurement priorities related to defense transformation or overseas operations cease or slow down, then our business, financial condition and results of operations could be impacted negatively.

***If we are unable to competitively operate within the network communications market and respond to new technologies, our business could be adversely affected.***

The network communications market, which our products and services target, is characterized by rapid technological changes, new product introductions and evolving industry standards. If we fail to stay abreast of significant technological changes, our existing products and technology could be rendered obsolete. Historically, we have endeavored to enhance the applications of our existing products to meet the technological changes and industry standards. Our success is dependent upon our ability to continue to develop new innovative products, applications and services and meet developing market needs.

To remain competitive in the network communications market, we must continue to be able to anticipate changes in technology, market demands and industry standards and to develop and introduce new products, applications and services, as well as enhancements to our existing products, applications and services. Competitors in satellite ground equipment market, low-profile antenna market and high power transceivers market are introducing new and improved products and our ability to remain competitive in this field will depend in part on our ability to advance our own technology. New communications networks that integrate satellites operating in low or medium earth orbits (NGSO) may compete significantly with current networks and may reduce the market prices and success of our current products until such time as we adapt our technology to support NGSO satellites. If we are unable to respond to technological advances on a cost-effective and timely basis, or if our new products or applications are not accepted by the market, our business, financial condition and operating results could be adversely affected.

***If we are unable to competitively operate within the GEO, HTS/VHTS, and NGSO satellite environments, our business could be adversely affected.***

Some of our competitors have launched Ka-band satellites. These actions may affect our competitiveness due to the relative lower cost of Ka-band space segment per user as well as the increased integration of the VSAT technology in the satellite solution. Due to the current nature of the HTS solution where the initial investment in ground-based satellite communication gateway equipment is relatively high, ground-based satellite communication equipment effectively becomes tightly coupled to the specific satellite technology. As such, there may be circumstances where it is difficult for competitors to compete with the incumbent VSAT vendor using the particular HTS satellite. If this occurs, the market dynamics may change to favor a VSAT vendor partnering with the satellite service provider, which may decrease the number of vendors who may be able to succeed. We believe that this trend will intensify as the market moves toward very high throughput satellite, or VHTS, and NGSO constellation networks. If we are unable to forge such a partnership our business could be adversely affected.

Although we have entered the HTS market with responsive HTS VSAT technology, we expect that our penetration into that market will be gradual and our success is not assured. In addition, our competitors, who are producing large numbers of HTS VSATs, may benefit from cost advantages. If we are unable to reduce our HTS VSAT costs sufficiently, we may not be competitive in the international market. We also expect that competition in this industry will continue to increase.

***If existing contracts, or orders for our products or services are terminated or not renewed, our ability to generate revenues will be harmed.***

A significant part of our business in previous years, including in 2019, was generated from recurring customers. From time to time, projects and orders may be cancelled by customers. Accordingly, the termination or non-renewal of our contracts could have a material adverse effect on our business, financial condition and operating results. Some of our existing contracts could be terminated or not renewed due to any of the following reasons, among others:

- dissatisfaction of our customers with our products and/or the services we provide or our inability to provide or install additional products or requested new applications on a timely basis;
- customers' default on payments due;
- our failure to comply with covenants or obligations in our contracts;
- the cancellation of the underlying project by the sponsoring government body; or
- change in the shareholders controlling our company.

If we are not able to retain our present customer base and gain new customers, our revenues will decline significantly. In addition, if our service businesses in Peru and Colombia do not win new government related contracts, our financial position may be adversely affected.

***Failure to expand our business into the IFC, cellular backhaul or NGSO markets, could have a material adverse effect on our overall business.***

Although we have signed contracts with Telcos and other customers in the IFC, commercial and cellular backhaul markets, and with a large satellite operator for NGSO communications systems, we may not be successful in our plans to expand our business in these markets. These markets are relatively new and are highly concentrated with a limited number of players and will require additional expenditures for research and development and sales and marketing. New players such as Amazon.com, Inc., and SpaceX have entered (or announced their intention to enter) the NGSO market and their greater resources will affect our position in this market. In addition, the cellular backhaul market with Telcos, the commercial IFC market and the NGSO market may fail to grow in accordance with our expectations.

We may also not be able to develop new technologies for those markets on a timely basis. Some of our projects include long and costly development programs, which could incur unexpected delays, or may require additional investment of resources, broader than expected. If we fail to meet the requirements of our development programs in a timely manner, we will incur penalties and other losses, which could have a significant adverse impact on our business and operating results. Barriers to further develop those markets as well as the continued downturn in the commercial aviation and travel markets caused by the Coronavirus could have a material adverse effect on our business and operating results.

***Our failure to obtain or maintain authorizations under the U.S. export control and trade sanctions laws and regulations could have a material adverse effect on our business.***

The export of some of our satellite communication products, related technical information and services is subject to U.S. State Department, Commerce Department and Treasury Department regulations, including International Traffic in Arms Regulations, or ITAR, and Export Administration Regulations, or EAR. Under these laws and regulations, our non-U.S. employees, including employees of our headquarters in Israel, might be barred from accessing certain information of our U.S. subsidiaries unless appropriate licenses are obtained. In addition to the U.S. export control laws and regulations applicable to us, some of our subcontractors and vendors may also be subject to U.S. export control laws and regulations and required to flow down requirements and restrictions imposed on products and services we purchase from them. If we do not maintain our existing authorizations or obtain necessary future authorizations under the export control laws and regulations of the U.S., including potential requirements related to entering into technical assistance agreements to disclose technical data or provide services to non-U.S. persons, we may be unable to export technical information or equipment to non-U.S. persons and companies, including to our own non-U.S. employees, as may be required to fulfill contracts we may enter into. We may also be subjected to export control compliance audits in the future that may uncover improper or illegal activities that would subject us to material remediation costs, civil and criminal fines, penalties or an injunction.

In addition, to participate in classified U.S. government programs, we may have to obtain security clearances from the DoD for one or more of our subsidiaries that want to participate. Such clearance may require us to enter into a proxy agreement or another similar arrangement with the U.S. government, which would limit our ability to control the operations of the subsidiary and which may impose substantial administrative requirements in order for us to comply. Further, if we materially violate the terms of any proxy agreement, the subsidiary holding the security clearance may be suspended or debarred from performing any government contracts, whether classified or unclassified. If we fail to maintain or obtain the necessary authorizations under the U.S. export control and national security laws and regulations, we may not be able to realize our market focus and our business could be materially adversely affected. The United States has adopted economic sanctions against certain persons and entities, including certain Russian entities operating in the financial, energy and defense sectors. These sanctions restrict, among other things, exports and transfer of technologies to these entities. In addition, recent events, including policies introduced by the current U.S. presidential administration, have resulted in substantial regulatory uncertainty regarding international trade and trade policy. For example, substantial changes to trade agreements has increased tariffs on certain goods imported into the United States and implies further imposing of significant tariff increases. The announcement of unilateral tariffs on imported products has triggered retaliatory actions from certain foreign governments, including China and Russia, and may trigger retaliatory actions by other foreign governments, potentially resulting in a “trade war.” While we do not believe that the tariff increases or actions of foreign governments have had an adverse effect on our business to date, we cannot predict the extent to which the United States or other countries will impose quotas, duties, tariffs, taxes or other similar restrictions upon the import or export of our products in the future, a “trade war” of this nature or other similar governmental actions and economic sanctions could have an adverse impact on demand for our services, sales and customers and affect the economies of the United States and various countries, having an adverse effect on our business, financial condition and results of operations.

***We are dependent on contracts with governments around the world for a significant portion of our revenue. These contracts may expose us to additional business risks and compliance obligations.***

We have focused on expanding our business to include contracts with or for various governments and governmental agencies around the world, including the Peruvian and Colombian governments and U.S. federal, state, and local government agencies either directly or through contractors or systems integrators. Such contracts account for a significant portion of our revenues. Our contracts with international governments generally contain unfavorable termination provisions. Governmental customers generally may unilaterally suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations and terminate existing contracts and audit our contract-related costs. If a termination right is exercised by a governmental customer, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additionally, the business we generate from government contracts may be materially adversely affected if:

- our reputation or relationship with government agencies is impaired;
- we are suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law enforcement agency;
- levels of government expenditures and authorizations for law enforcement and security related programs decrease or shift to program in areas where we do not provide products and services;
- we are prevented from entering into new government contracts or extending existing government contracts based on violations or suspected violations of laws or regulations, including those related to procurement;
- we are not granted security clearances that are required to sell our products to domestic or foreign governments or such security clearances are deactivated;
- there is a change in government procurement procedures or conditions of remuneration; or
- there is a change in the political climate that adversely affects our existing or prospective relationships.

***We depend on our main facility in Israel and are susceptible to any event that could adversely affect its condition or the condition of our other facilities.***

A material portion of our laboratory capacity, our principal offices and principal research and development facilities for the principal part of our business are concentrated in a single location in Israel. We also have significant facilities for research and development and manufacturing of components for our low-profile antennas at a single location in Bulgaria as well as a research and development center in Moldova and research and development, engineering and manufacturing facilities in California and in Singapore. Fire, natural disaster or any other cause of material disruption in our operations in any of these locations could have a material adverse effect on our business, financial condition and operating results.

***We are dependent upon a limited number of suppliers for key components that are incorporated in our products, including those used to build our hub systems and VSATs, and may be significantly harmed if we are unable to obtain such components on favorable terms or on a timely basis. We are also dependent upon a limited number of suppliers of space segment, or transponder capacity and may be significantly harmed if we are unable to obtain the space segment for the provision of services on favorable terms or on a timely basis.***

Several of the components required to build our products are manufactured by a limited number of suppliers. Although we have managed to solve the difficulties we experienced in the past with our suppliers with respect to availability of components, we cannot assure the continued availability of key components or our ability to forecast our component requirements sufficiently in advance. Although we are working with our suppliers to obtain components for our products on favorable terms there is no assurance that our efforts will be successful. While the majority of our products are manufactured outside of China, certain components and materials for our products are manufactured or procured in China, and the recent Coronavirus outbreak has caused delays and disruptions in manufacturing, supply chain, labor shortages, travel and shipping disruption and shutdowns, and may adversely affect our ability to procure the necessary volume of materials. If we are unable to obtain the necessary volume of components at sufficiently favorable terms or prices, we may be unable to produce our products at competitive prices. As a result, sales of our products may be lower than expected, which could have a material adverse effect on our business, financial condition and operating results. In addition, our suppliers are not always able to meet our requested lead times. If we are unable to satisfy customers' needs on time, we could lose their business.

Certain of the significant components required to build almost all of our VSAT units, our hub systems as well as our other products are manufactured by a sole manufacturer. Such dependency exposes us to certain risks in connection with the availability of the respective component, which could include failure in meeting time tables and production requirements and may expose us to material price increases which may affect our ability to provide competitive prices or require us to re-design some of our products. We estimate that the replacement of sole manufacturers would, if necessary, take a substantial period of time.

There are a limited number of suppliers of satellite transponder capacity and a limited amount of space segment available (although the space segment availability is increasing and prices are generally decreasing). We are dependent on these suppliers for our provision of services mainly in Peru, Colombia and North America. While we do secure long-term agreements with our satellite transponder providers, we cannot assure the continuous availability of space segment, the pricing upon renewals of space segment and the continuous availability and coverage in the regions where we supply services. If we are unable to secure contracts with satellite transponder providers with reliable service at competitive prices, our services business could be adversely affected. We rely on satellite capacity providers, who commit to certain key performance indicators, or KPIs, in connection with the operation of our managed networks and services. Such KPIs are limited and do not always reflect the same level of KPIs guaranteed by us towards our customers.

***We would be adversely affected if we are unable to attract and retain key personnel***

Our success depends in part on key management, sales, marketing and development personnel and our continuing ability to attract and retain highly qualified personnel, including with respect to our acquired companies. There is competition for the services of such personnel. The loss of the services of senior management and key personnel, and the failure to attract highly qualified personnel in the future, may have a negative impact on our business. Moreover, our competitors may hire and gain access to the expertise of our former employees or our former employees may compete with us. There is no assurance that former employees will not compete with us or that we will be able to find replacements for departing key employees in the future.

***If demand for our mobility applications for air, land and sea, VSATs and other products declines or if we are unable to develop products to meet demand, our business could be adversely affected.***

Our low-profile in-motion antenna systems and a portion of our SSPA product line are intended for mobility applications for air, land and sea. As a result of the impact of the spread of the Coronavirus, we have begun to experience a decline in demand for such products. If the demand for such products, our VSATs or other products does not improve, or if we are unable to develop products that are competitive in technology and pricing, we may not be able to realize our market focus and our satellite communication on the move business and other businesses could be materially adversely affected.

***We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.***

Our business is based mainly on our proprietary technology and related products and services. We establish and protect proprietary rights and technology used in our products by the use of patents, trade secrets, copyrights and trademarks. We also utilize non-disclosure and intellectual property assignment agreements. Because of the rapid technological changes and innovation that characterize the network communications industry, our success will depend in large part on our ability to protect and defend our intellectual property rights. Our actions to protect our proprietary rights in our VSATs, hubs, SSPAs and antennas technology as well as other products may be insufficient to protect our intellectual property rights and prevent others from developing products similar to our products. In addition, the laws of many foreign countries do not protect our intellectual property rights to the same extent as the laws of the U.S., or we may have failed to enter into non-disclosure and intellectual property assignment agreements with certain persons, or the agreements we entered into may be found inadequate. If we are unable to protect our intellectual property, our ability to operate our business and generate expected revenues may be harmed.

***Failure to protect against cyber-attacks, natural disasters or terrorist attacks, and failures of our information technology systems, infrastructure and data could have an adverse effect on our business.***

Failure to protect against cyber-attacks, unauthorized access or network security breaches, inclement weather, natural or man-made disasters, earthquakes, explosions, terrorist attacks, acts of war, floods, fires, computer viruses, power loss, telecommunications or equipment failures, transportation interruptions, accidents or other disruptive events or attempts to harm our systems may cause equipment failures or disrupt our systems and operations. In particular, both unsuccessful and successful cyber-attacks on companies have increased in frequency, scope and potential harm in recent years. Criminal hackers may develop and deploy viruses, worms and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Additionally, external parties may induce our employees or users of our products to disclose sensitive information in order to gain access to our data or our customers' data. We have been subject, and will likely continue to be subject, to attempts to breach the security of our networks and Information Technology, or IT, infrastructure through cyber-attack, malware, computer viruses, social engineering, email phishing attacks and other means of unauthorized access. In general, companies may be unaware of attacks until a substantial period has elapsed thereafter, or not at all. While none of these actual or attempted attacks has had a material impact on our operations or financial condition, we cannot provide any assurance that our business operations will not be negatively materially affected by such attacks in the future.

Any disruption, disabling, or attack affecting our equipment and systems and the hardware, software and infrastructure on which we rely could result in a security or privacy breach. Whether such event is physical human error or malfeasance (whether accidental, fraudulent or intentional) or electronic in nature (such as malware, virus, or other malicious code) such an event could result in our inability to operate our facilities or continually operate our networks, which, even if the event is for a limited period of time, may result in significant expenses and/or loss of market share to other competitors in the market for tele-management products and invoice management solutions. While we maintain insurance coverage for some of these events, which could offset some of the losses, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Any of the events described above could result in litigation and potential liability or fines for us, a material impact to our operations or financial condition, damage our brand and reputation or otherwise harm our business.

Regulators globally are adopting new privacy regulations and imposing greater monetary fines for privacy violations. For example, in 2016, the European Union adopted new regulations governing data practices and privacy called the General Data Protection Regulation, or GDPR, which became effective in May 2018. The GDPR establish new requirements regarding the handling of personal data, and non-compliance with the GDPR may result in monetary penalties of up to 4% of worldwide revenue. Another example is the California Consumer Privacy Act, or CCPA, effective as of January 2020, which provides California residents new rights restricting collection, use, and sharing of their "Personal Information". Compliance with that law may increase the cost of providing services in California. In addition, violation of applicable local privacy laws may entail criminal consequences. The GDPR, CCPA and other changes in laws or regulations associated with the enhanced protection of certain types of sensitive data, such as healthcare data or other personal information, could greatly increase our cost of providing our products and services or even prevent us from offering certain services in jurisdictions that we operate. Further, if we fail to comply with the GDPR, CCPA and other privacy regulations applicable to us we may incur high monetary and other penalties, which may have significant adverse effect on our business.

***A decrease in the selling prices of our products and services could materially harm our business.***

The average selling prices of communications products historically decline over product life cycles. In particular, we expect the average selling prices of our products to decline as a result of competitive pricing pressures and customers who negotiate discounts based on large unit volumes. A decrease in the selling prices of our products and services could have a material adverse effect on our business.



***Trends and factors affecting the telecommunications industry are beyond our control and may result in reduced demand and pricing pressure on our products.***

We operate in the telecommunication industry and are influenced by trends of that industry, which are beyond our control and may affect our operations. These trends include:

- adverse changes in the public and private equity and debt markets and our ability, as well as the ability of our customers and suppliers, to obtain financing or to fund working capital and capital expenditures;
- adverse changes in the credit ratings of our customers and suppliers;
- adverse changes in the market conditions in our industry and the specific markets for our products;
- access to, and the actual size and timing of, capital expenditures by our customers;
- inventory practices, including the timing of product and service deployment, of our customers;
- the amount of network capacity and the network capacity utilization rates of our customers, and the amount of sharing and/or acquisition of new and/or existing network capacity by our customers;
- the overall trend toward industry consolidation among our customers, competitors, and suppliers;
- price reductions by our direct competitors and by competing technologies including, for example, the introduction of HTS satellite systems by our direct competitors which could significantly drive down market prices or limit the availability of satellite capacity for use with our VSAT systems;
- conditions in the broader market for communications products, including data networking products and computerized information access equipment and services;
- governmental regulation or intervention affecting communications or data networking;
- monetary instability in the countries where we operate;
- the risks of outbreaks of pandemic or contagious diseases, such as Ebola, measles, avian flu, severe acute respiratory syndrome (SARS), H1N1 (swine) flu, Zika virus and Coronavirus; and
- the effects of war and acts of terrorism, such as disruptions in general global economic activity, changes in logistics and security arrangements and reduced customer demand for our products and services.

These trends and factors may reduce the demand for our products and services or require us to increase our research and development expenses and may harm our financial results.

***Our international sales and business expose us to changes in foreign regulations and tariffs, tax exposures, political instability and other risks inherent to international business, any of which could adversely affect our operations.***

We sell and distribute our products and provide our services internationally, particularly in the United States, Latin America, Asia, Asia Pacific, Africa, Europe and CIS (Russian Commonwealth). We also operate our business and manufacture our products internationally. A component of our strategy is to continue and expand in international markets. Our operations can be limited or disrupted by various factors known to affect international trade. These factors include the following:

- imposition of governmental controls, regulations and taxation which might include a government's decision to raise import tariffs or license fees in countries in which we do business;
- government regulations that may prevent us from choosing our business partners or restrict our activities;
- the U.S. Foreign Corrupt Practices Act, or the FCPA, and applicable anti-corruption laws in other jurisdictions, which include anti-bribery provisions. Our policies mandate compliance with these laws. Nevertheless, we may not always be protected in cases of violation of the FCPA or other applicable anti-corruption laws by our employees or third-parties acting on our behalf. A violation of anti-corruption laws by our employees or third-parties during the performance of their obligations for us may have a material adverse effect on our reputation, operating results and financial condition;
- tax exposures in various jurisdictions relating to our activities throughout the world;
- political and/or economic instability in countries in which we do or desire to do business or where we operate or manufacture our products. Such unexpected changes could have an adverse effect on the gross margin of some of our projects. This includes similar risks from potential or current political and economic instability as well as volatility of foreign currencies in countries such as Colombia, Brazil, Venezuela and certain countries in East Asia;
- difficulties in staffing and managing foreign operations that might mandate employing staff in various countries to manage foreign operations. This requirement could have an adverse effect on the profitability of certain projects;
- longer payment cycles and difficulties in collecting accounts receivable;
- foreign exchange risks due to fluctuations in local currencies relative to the dollar; and
- relevant zoning ordinances that may restrict the installation of satellite antennas and might also reduce market demand for our service. Additionally, authorities may increase regulation regarding the potential radiation hazard posed by transmitting earth station satellite antennas' emissions of radio frequency energy that may negatively impact our business plan and revenues.

Any decline in commercial business in any country may have an adverse effect on our business as these trends often lead to a decline in technology purchases or upgrades by private companies. We expect that in difficult economic periods, countries in which we do business will find it more difficult to raise financing from investors for the further development of the telecommunications industry and private companies will find it more difficult to finance the purchase or upgrade of our technology. Any such changes could adversely affect our business in these and other countries.

***If we fail to meet the covenants in our loan agreements with banks, or otherwise breach the terms of our credit agreements, the banks may accelerate payment of outstanding loans and our business could be seriously harmed.***

Our loan agreements and credit and guarantee facilities with banks contain covenants regarding our maintenance of certain financial ratios. The covenants contained in our credit facilities triggers acceleration of payments or restrict, among other things, our ability to pledge our assets, dispose of assets, give guarantees or restrict certain changes in the ownership of our shares. Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. We cannot assure you that we shall be able to continue to comply with the covenants included in our agreements with the banks. If we fail to comply, we shall be required to renegotiate the terms of our credit facilities with the banks. We cannot assure you that we shall be able to reach an agreement with the banks or that such agreements will be on favorable terms to us. Our ability to restructure or refinance our credit facilities depends on the condition of the capital markets and our financial condition. Any refinancing of our existing credit facilities could be at higher interest rates and may require us to comply with different covenants, which could restrict our business operations.

***We may face difficulties in obtaining regulatory approvals for our telecommunication services and products, which could adversely affect our operations.***

Certain of our telecommunication operations require licenses and approvals by the Israeli Ministry of Communication, the Federal Communications Commission in the U.S., or FCC, and by regulatory bodies in other countries. In Israel and the U.S., the operation of satellite earth station facilities and VSAT systems such as ours are prohibited except under licenses issued by the Israeli Ministry of Communication and the FCC in the U.S. Our airborne products require licenses and approvals by the Federal Aviation Agency, or FAA, which are obtained by our customers or our Wavestream subsidiary. We must also obtain approval of the regulatory authority in each country in which we propose to provide network services or operate VSATs. The approval process in Latin America and elsewhere can often take a substantial amount of time and require substantial resources.

In addition, any licenses and approvals that are granted may be subject to conditions that may restrict our activities or otherwise adversely affect our operations. Also, after obtaining the required licenses and approvals, the regulating agencies may, at any time, impose additional requirements on our operations. Failure to obtain the required license where such license is required may result in high monetary and other penalties. We cannot assure you that we will be able to comply with any new requirements or conditions imposed by such regulating agencies on a timely or economically efficient basis.

Our products are also subject to requirements to obtain certification of compliance with local regulatory standards. Delays in receiving such certification could also adversely affect our operations.

***Currency exchange rates and fluctuations of currency exchange rates may adversely affect our results of operations, liabilities, and assets.***

Since we operate in several countries, we are impacted by currency exchange rates and fluctuations of various currencies. Although partially mitigated by our hedging activities, we are impacted by currency exchange rates and fluctuations thereof in a number of ways, including the following:

- A significant portion of our expenses, principally salaries and related personnel expenses, are incurred in NIS, and to a lesser extent, other non-U.S. dollar currencies, whereas the currency we use to report our financial results is the U.S. dollar and a significant portion of our revenue is generated in U.S. dollars. A significant strengthening of the NIS against the U.S. dollar can considerably increase the U.S. dollar value of our expenses in Israel and our results of operations may be adversely affected;
- A portion of our international sales is denominated in currencies other than the U.S. dollar, including but not limited to the Euro, Colombian Peso, Australian Dollar, Brazilian Real, Peruvian Sol, Russian Ruble, Malaysian Ringgit and the Mexican Peso, therefore we are exposed to the risk of devaluation of such currencies relative to the dollar which could have a negative impact on our revenues;
- We have assets and liabilities that are denominated in non-U.S. dollar currencies. Therefore, significant fluctuation in these other currencies could have significant effect on our results; and

- A portion of our U.S. dollar revenues are derived from customers operating in local currencies which are different from the U.S. dollar. Therefore, devaluation in the local currencies of our customers relative to the U.S. dollar could cause our customers to cancel or decrease orders or delay payment.

We are also subject to other foreign currency risks including repatriation restrictions in certain countries, particularly in Latin America. As noted above, from time to time, we enter into hedging transactions to attempt to limit the impact of foreign currency fluctuations. However, the protection provided by such hedging transactions may be partial and leave certain exchange rate-related losses and risks uncovered. Therefore, our business and profitability may be harmed by such exchange rate fluctuations.

***The transfer and use of some of our technology and its production outside of Israel is limited because of the research and development grants we received from the Israeli government to develop such technology.***

Our research and development efforts associated with the development of certain of our products have been partially financed through grants from the Israeli Innovation Authority, or Innovation Authority, formerly the Office of the Chief Scientist of the Israeli Ministry of Economy. We are subject to certain restrictions under the terms of these grants. Specifically, manufacturing outside of Israel, of any product incorporating technology developed with the funding provided by these grants is limited to a certain extent as set forth in the relevant program. In addition, the technology developed with the funding provided by these grants (which is embodied in our products) may not be transferred, without appropriate governmental approvals. Such approvals, if granted, may involve penalties payable to the Israeli authorities as well as increased royalty payments to the Innovation Authority for royalty-bearing programs. These restrictions do not apply to the sale or export from Israel of our products developed with this technology.

***We may not be compliant, currently or in the future, with the requirements for Benefited Enterprise status and may be denied benefits. Israeli government programs and tax benefits may be terminated or reduced in the future.***

We participate in programs of the Innovation Authority and the Israel Investment Center, for which we receive tax and other benefits as well as funding for the development of technologies and products. Our company chose 2011 as the year of election in order to receive tax benefits as a “Benefited Enterprise”. Our period of benefits as a Benefitted Enterprise under the 2011 election will expire in 2023. If we fail to comply with the conditions applicable to this status under the Investment Law, we may be required to pay additional taxes and penalties or make refunds and may be denied future benefits. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under such programs, and therefore these benefits may not be available in the future at current levels or at all.

***We may be subject to claims by third parties alleging that we infringe intellectual property owned by them. We may be required to commence litigation to protect our intellectual property rights. Any intellectual property litigation may continue for an extended period and may materially adversely affect our business, financial condition and operating results.***

There are numerous patents, both pending and issued, in the network communications industry. We may unknowingly infringe on a patent. We may from time to time be notified of claims that we are infringing on patents, copyrights or other intellectual property rights owned by third parties. While we do not believe that we have infringed in the past or are infringing at present on any intellectual property rights of third parties, we cannot assure you that we will not be subject to such claims or that damages for any such claim will not be awarded against us by a court.

In addition, we may be required to commence litigation to protect our intellectual property rights and trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against third-party claims of invalidity or infringement. An adverse result of any litigation could force us to pay substantial damages, stop designing, manufacturing, using or selling related products, spend significant resources to develop alternative technologies, discontinue using certain processes or obtain licenses. In addition, we may not be able to develop alternative technology, and we may not be able to find appropriate licenses on reasonably satisfactory terms. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and operating results.

***Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our solutions.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes disclosure requirements regarding the use in components of our products of “conflict minerals” mined from the Democratic Republic of Congo and adjoining countries, whether the components of our products are manufactured by us or third parties. These requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of components we use in our products. Although the U.S. Securities and Exchange Commission, or the SEC, has provided guidance with respect to a portion of the conflict mineral filing requirements that may somewhat reduce our reporting practices, there are costs associated with complying with the disclosure requirements and customer requests, such as costs related to our due diligence to determine the source of any conflict minerals used in our products. We may face difficulties in satisfying customers who may require that all of the components of our products are certified as conflict mineral free or free of numerous other hazardous materials. For example, in December 2019, a lawsuit, by the human rights group International Rights Advocates was filed against certain large tech companies in Washington, DC, accusing such firms of aiding and abetting forced labor practices in the Democratic Republic of the Congo.

***Potential product liability claims relating to our products could have a material adverse effect on our business.***

We may be subject to product liability claims relating to the products we sell. Potential product liability claims could include, among others, claims for exposure to electromagnetic radiation from the antennas we provide. We endeavor to include in our agreements with our business customers provisions designed to limit our exposure to potential claims. We also maintain a product liability insurance policy. However, our contractual limitation of liability may be rejected or limited in certain jurisdictions and our insurance may not cover all relevant claims or may not provide sufficient coverage. To date, we have not been subject to any material product liability claim. Our business, financial condition and operating results could be materially adversely affected if costs resulting from future claims are not covered by our insurance or exceed our coverage.

***Environmental laws and regulations may subject us to significant liability.***

Our operations are subject to various Israeli, U.S. federal, state and local as well as certain other foreign environmental laws and regulations within the countries in which we operate relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes used in our operations.

New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements may require us to incur a significant amount of additional costs in the future and could decrease the amount of cash flow available to us for other purposes, including capital expenditures, research and development and other investments and could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects. We may identify deficiencies in our compliance with local legislation within countries in which we operate. Failure to comply with such legislation could result in sanctions by regulatory authorities and could adversely affect our operating results. Examples of these laws and regulations include the E.U. Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive, and the E.U. Waste Electrical and Electronic Equipment Directive.

## Risks Related to Ownership of Our Ordinary Shares

*Our share price has been highly volatile and may continue to be volatile and decline.*

The trading price of our shares as well as the market generally has fluctuated widely in the past and may continue to do so in the future as a result of a number of factors, many of which are outside our control. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market prices of many technology companies, particularly telecommunication and internet-related companies, and that have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our shares. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. Securities class action litigation against us could result in substantial costs and a diversion of our management's attention and resources.

*Our operating results may vary significantly from quarter to quarter and from year to year and these quarterly and yearly variations in operating results, as well as other factors, may contribute to the volatility of the market price of our shares.*

Our operating results have and may continue to vary significantly from quarter to quarter. The causes of fluctuations include, among other things:

- the timing, size and composition of requests for proposals or orders from customers;
- the timing of introducing new products and product enhancements by us and the level of their market acceptance;
- the mix of products and services we offer;
- the level of our expenses; and
- the changes in the competitive environment in which we operate.

The quarterly variation of our operating results, may, in turn, create volatility in the market price for our shares. Other factors that may contribute to wide fluctuations in our market price, many of which are beyond our control, include, but are not limited to:

- economic instability;
- announcements of technological innovations;
- customer orders or new products or contracts;
- competitors' positions in the market;
- changes in financial estimates by securities analysts;
- conditions and trends in the VSAT and other technology industries relevant to our businesses;
- our earnings releases and the earnings releases of our competitors; and
- the general state of the securities markets (with particular emphasis on the technology and Israeli sectors thereof).

In addition to the volatility of the market price of our shares, the stock market in general and the market for technology companies in particular has been highly volatile and at times thinly traded. Investors may not be able to resell their shares during and following periods of volatility.

***We may in the future be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.***

U.S. holders of our ordinary shares may face income tax risks. There is a risk that we will be treated as a “passive foreign investment company”. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such shares. A foreign corporation will be treated as a PFIC for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of “passive income,” or (2) at least 50% of the average value of the corporation’s gross assets produce, or are held for the production of, such types of “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute “passive income”. If we are treated as a PFIC, U.S. Holders of shares (or rights) would be subject to a special adverse U.S. federal income tax regime with respect to the income derived by us, the distributions they receive from us, and the gain, if any, they derive from the sale or other disposition of their ordinary shares (or rights). In particular, any dividends paid by us, if any, would not be treated as “qualified dividend income” eligible for preferential tax rates in the hands of non-corporate U.S. shareholders. We believe that we were not a PFIC for the 2019 taxable year. However, since PFIC status depends upon the composition of our income and the market value of our assets from time to time, there can be no assurance that we will not become a PFIC in any future taxable year. U.S. Holders should carefully read Item 10E. “Additional Information – Taxation” for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares (or rights).

***Future sales of our ordinary shares and the future exercise of options may cause the market price of our ordinary shares to decline and may result in a substantial dilution.***

We cannot predict what effect, if any, future sales of our ordinary shares by the private equity firm, FIMI Opportunity Funds, or the FIMI Funds, and our other significant shareholders, or the availability for future sale of our ordinary shares, including shares issuable upon the exercise of our options, will have on the market price of our ordinary shares. In July 2019, we filed a shelf registration statement with the Securities and Exchange Commission allowing for our issuance and sale of up to \$150 million of ordinary shares, warrants to purchase ordinary shares or debt securities, debt securities (including convertible debt securities) and subscription rights or units comprised of one or more of the other aforementioned securities. The shelf registration statement will expire in July 2021. We have also registered the ordinary shares of our company held by the FIMI Funds and certain other affiliated shareholders for resale from time to time. Sales of substantial amounts of our ordinary shares in the public market by our company or our significant shareholders, or the perception that such sales could occur, could adversely affect the market price of our ordinary shares and may make it more difficult for you to sell your ordinary shares at a time and price you deem appropriate.

***Certain of our shareholders beneficially own a substantial percentage of our ordinary shares.***

FIMI, our controlling shareholder, holds approximately 33.9% of our outstanding ordinary shares and each of our other two major shareholders hold 5.3% and 9.7% respectively of our outstanding ordinary shares. This concentration of ownership of our ordinary shares could delay or prevent mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration could also accelerate these same transactions in lieu of others depriving shareholders of opportunities. This concentration of ownership may also cause a decrease in the volume of trading or otherwise adversely affect our share price.

***In April 2019 we distributed a cash dividend for the first time. No assurance can be given that we will pay dividends in the future.***

In April 2019 we distributed a cash dividend in the amount of \$0.45 per share (approximately \$24.9 million in the aggregate). This was the first time that we distributed a dividend. We have not adopted a general policy regarding the distribution of dividends and make no statements as to the distribution of dividends in the foreseeable future. The terms of some of our financing arrangements require us to meet certain financial covenants regarding minimum cash balance and require prior approval of certain banks which extended us loans. Any future dividend distributions are subject to the discretion of our board of directors and will depend on various factors, including our operating results, future earnings, capital requirements, financial condition, and tax implications of dividend distributions on our income, future prospects and any other factors deemed relevant by our board of directors. The distribution of dividends is also limited by Israeli law, which permits the distribution of dividends by an Israeli corporation only out of its retained earnings as defined in Israel’s Companies Law, 5759-1999, or the Companies Law, provided that there is no reasonable concern that such payment will cause us to fail to meet our current and expected liabilities as they become due, or otherwise with the court’s permission. You should not invest in our company if you seek a secured dividend income from your investment. For information regarding taxation of dividend, see ITEM 10.E – “Additional Information - Taxation - Israeli Tax Consequences of Holding Our Stock - Dividends”.

***Our ordinary shares are traded on more than one market and this may result in price variations.***

Our ordinary shares are traded on the NASDAQ Global Select Market and on the TASE. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on the NASDAQ Global Select Market, and NIS on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the U.S. and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

***If we are unable to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the reliability of our financial statements may be questioned and our share price may suffer.***

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and on our executives and directors. To comply with this statute, we are required to document and test our internal control over financial reporting, and our independent registered public accounting firm must issue an attestation report on our internal control procedures, and our management is required to assess and issue a report concerning our internal control over financial reporting. Our efforts to comply with these requirements have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal controls over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities, and could adversely affect our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

### **Risks Related to Our Location in Israel**

***Political and economic conditions in Israel may limit our ability to produce and sell our products. This could have a material adverse effect on our operations and business condition, harm our results of operations and adversely affect our share price.***

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and most of our manufacturing and research and development facilities. As a result, political, economic and military conditions affecting Israel directly influence us. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade or air traffic between Israel and its trading partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations.

Conflicts in North Africa and the Middle East, including in Egypt and Syria which countries border Israel, have resulted in continued political uncertainty and violence in the region. Efforts to improve Israel's relationship with the Palestinian Authority have failed to result in a permanent solution, and there have been numerous periods of hostility in recent years. In addition, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran's nuclear program. Such instability may affect the economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect our business, financial condition and results of operations in the future.



Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries directly from Israel. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods. Such actions, particularly if they become more widespread, may adversely impact our ability to sell our products.

The recent political stalemate following inconclusive election results in Israel has resulted in the suspension of government budgets and consequently has halted work on contracts with the Israeli government, which could adversely affect our future revenue and cash flow.

***Your rights and responsibilities as a shareholder are governed by Israeli law and differ in some respects from those under Delaware law.***

Because we are an Israeli company, the rights and responsibilities of our shareholders are governed by our Articles of Association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in a Delaware corporation. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his, her or its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable to shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

***As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we follow certain home country corporate governance practices instead of certain NASDAQ requirements, which may not afford shareholders with the same protections that shareholders of domestic companies have.***

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Marketplace Rules. We follow Israeli law and practice instead of The NASDAQ Marketplace Rules with respect to the director nominations process and the requirement to obtain shareholder approval for the establishment or material amendment of certain equity-based compensation plans and arrangements. As a foreign private issuer listed on the NASDAQ Global Select Market, we may also follow home country practice with regard to, among other things, the requirement to obtain shareholder approval for certain dilutive events (such as for an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

***If we are unable to comply with Israel's enhanced export control regulations our ability to export our products from Israel could be negatively impacted.***

Our export of military products and related technical information is also subject to enhanced Israeli Ministry of Defense regulations regarding defense export controls and the export of "dual use" items (items that are typically sold in the commercial market but that may also be used in the defense market). Some of our products may include features, such as encryption, that require an export license. Some of our products are exempted from Israeli Ministry of Defense export control. The Israeli Ministry of Defense may change the classification of our existing commercial products or may determine that new products we develop are not exempt from Israeli Ministry of Defense export control. This would place such products subject to the Israeli Ministry of Defense export control regulations as military products or "dual use" items, which would impose on our sales process stringent constraints in relation to each sale transaction and limit our markets. If we do not maintain our existing authorizations and exemption or obtain necessary future authorizations and exemptions under the export control laws and regulations of Israel, including export licenses for the sale of our equipment and the transfer of technical information, we may be unable to export technical information or equipment outside of Israel, we may not be able to realize our market projections and our business could be materially adversely affected.

***Our results of operations may be negatively affected by the obligation of our personnel to perform military service.***

A significant number of our employees in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by a significant absence of one or more of our key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

***You may not be able to enforce civil liabilities in the U.S. against our officers and directors.***

We are incorporated in Israel. All of our directors and executive officers reside outside the U.S., and a significant portion of our assets and the personal assets of most of our directors and executive officers are located outside the U.S. Therefore, it may be difficult to effect service of process upon any of these persons within the U.S. In addition, a judgment obtained in the U.S. against us, or against such individuals, including but not limited to judgments based on the civil liability provisions of the U.S. federal securities laws, may not be collectible within the U.S.

Additionally, it may be difficult for an investor or any other person or entity, to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws on the ground that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law is applicable to the claim. Certain matters of procedures will also be governed by Israeli law.

***Under current Israeli law, U.S. law and the laws of other jurisdictions, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.***

We currently generally include non-competition clauses in the employment agreements of our employees in certain regions. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors for a certain period of time. Israeli labor courts have required employers, seeking to enforce non-compete undertakings against former employees, to demonstrate that the competitive activities of the former employee will cause harm to one of a limited number of material interests of the employer recognized by the courts (for example, the confidentiality of certain commercial information or a company's intellectual property). In the event that any of our employees chooses to leave and work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise of our former employee obtained from us, if we cannot demonstrate to the court that our interests as defined by case law would be harmed. Non-competition clauses may be unenforceable or enforceable only to a limited extent in other jurisdictions as well.

## ITEM 4: INFORMATION ON THE COMPANY

### A. History and Development of the Company

We were incorporated in Israel in 1987 and are subject to the laws of the State of Israel. We are a public limited liability company under Israel's Companies Law and operate under that law and associated legislation. Our corporate headquarters, executive offices and main research and development and engineering facilities, as well as facilities for some manufacturing and product assembly are located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva 4913020, Israel. Our telephone number is (972) 3-925-2000. Our address in the U.S. is c/o Wavestream Corporation at 545 West Terrace Drive, San Dimas, California 91773. Our website address is [www.gilat.com](http://www.gilat.com). The information on our website is not incorporated by reference into this annual report.

We are a leading 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 innovative technology. Our portfolio includes a cloud based satellite network platform, VSAT terminals, amplifiers, high-speed modems, high performance on-the-move antennas, high efficiency, high power SSPA amplifiers, BUCs and transceivers. Our comprehensive 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 over networks built using our own equipment and also over other networks that we install, mainly on the basis of BOT contracts. In these BOT projects, we build telecommunication infrastructure typically using fiber-optic and wireless technologies for broadband connectivity.

Our products are primarily sold to communication service providers and operators that use satellite communications for their customers and to government organizations and system integrators that use our technology. We are particularly active in the following market sectors: enterprise and government broadband applications; consumer broadband access; cellular connectivity; national telecommunication connectivity; defense and homeland security and mobility applications for air, land and sea. We provide services directly to end-users in various market sectors including in certain countries in Latin America and provide managed network services, such as in Australia and the U.S., over a satellite network owned by a third party. We have 20 sales and support offices worldwide, three network operations centers and five R&D centers.

We shipped our first generation VSAT in 1989 and since then we have been among the technological leaders in the satellite ground equipment industry. Our continuous investment in research and development has resulted in the development of new and industry-leading products and our intellectual property portfolio includes 76 issued patents (60 U.S. and 16 foreign) relating to our VSAT and other systems as well as 19 issued patents (17 U.S. and 2 foreign) relating to our satellite communication on the move antenna solutions and 13 issued patents (3 U.S. and 10 foreign) for our high power SSPAs.

In December 2013, we sold our Spacenet subsidiary, a provider of managed network communications services utilizing satellite wireline and wireless networks and associated technology.

In 2019, 2018 and 2017, our property and equipment purchases related to our continuing operations amounted to approximately \$8 million, \$10.8 million and \$3.7 million, respectively. These amounts do not include the reclassification of inventory to property and equipment and other non-cash purchases made during 2019, 2018 and 2017 in the approximate amounts of \$1.4 million, \$2.3 million and \$5.7 million respectively.

On January 29, 2020, we entered into the Merger Agreement with Comtech and Merger Sub, pursuant to which, among other things, Comtech will acquire Gilat by way of the merger of Merger Sub with and into Gilat, with Gilat surviving the Merger as a wholly-owned subsidiary of Comtech. The Merger is structured as a statutory merger pursuant to Sections 314-327 of the Companies Law, 5759-1999, of the State of Israel.

Pursuant to the terms and subject to the conditions of the Merger Agreement, each Gilat Share issued and outstanding immediately prior to the effective time of the Merger will be cancelled and extinguished and automatically converted into the right to receive a combination of (A) \$7.18 in cash, without interest, plus (B) 0.08425 of a validly issued, fully paid and nonassessable share of Comtech Common Stock, with cash payable in lieu of fractional shares of Comtech Common Stock implying on the date we entered into the Merger Agreement, a total consideration of approximately \$10.25 per Gilat Share, which implied value has declined from such date.

The Boards of Directors of Comtech and Gilat have unanimously approved the Merger and the Merger Agreement. The Merger is subject to customary closing conditions of transactions between public United States and Israeli companies, including the absence of certain legal impediments, the passage of the statutory waiting periods following the filing of the Merger proposal with the Registrar of Companies of the State of Israel, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, clearance or approval by certain other antitrust or competition authorities in other jurisdictions, the absence of a material adverse effect (as such term is defined in the Merger Agreement) with respect to Gilat and Comtech from the date of the Merger Agreement, the SEC declaring effective the registration statement on Form S-4 registering the shares of Comtech Common Stock to be issued in connection with the Merger, approval by the holders of a majority of the Gilat Shares voting at a meeting, the receipt of applicable exemptions from Israeli securities law requirements, the expiration of certain statutory waiting periods under the Israeli Companies Law, the accuracy of the representations and warranties of each party (subject to certain materiality standards), and the material compliance by each party with its obligations under the Merger Agreement. The consummation of the Merger is not subject to any financing condition and is expected to be completed in the second or third quarter of 2020.

The foregoing description of the Merger does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement incorporated by reference herein. We encourage you to read the Merger Agreement for a more complete understanding of the transactions.

## **B. Business Overview**

We are a leading provider of ground-based satellite communications and other network communications solutions and services. We design and manufacture ground-based satellite networking communications equipment, which we sell to our customers either as network components (modems, BUCs, antennas) or as complete network solutions (which include hubs and related terminals and services) or turnkey projects. The equipment that we develop includes commercial VSAT systems, defense and homeland security satellite communications systems, SSPAs, BUCs, transceivers, low-profile antennas, on-the-Move/on-the-Pause terminals and modems. Our equipment is used by satellite operators, service providers, telecommunications operators, system integrators, government and defense organizations, large corporations and enterprises. We sell and distribute our products and provide our services internationally, in Latin America, Asia, Asia Pacific, North America, Africa, Europe and CIS (Russian Commonwealth). In particular, we provide connectivity services, internet access and telephony, to enterprise, government and residential customers over our own networks, built using both our equipment and equipment purchased from other manufacturers in various technologies. We also provide NOC operations and hub services.

We operate in three business segments, 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, MNOs, Telcos, and large enterprises and governments worldwide. In addition, it includes our network operation activity in Peru. We focus on HTS, opportunities worldwide, with focus on cellular backhaul and enterprise, 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 the high-growth market of 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, BUCs and transceivers. 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 PRONATEL in Peru.

In the year ended December 31, 2019, we derived approximately 48%, 40% and 12% of our revenues from our Fixed Networks, Mobility Solutions and Terrestrial Infrastructure Projects segments, respectively.

We have diversified revenue streams that result from both sales of products, which include construction of networks, and services. In the year ended December 31, 2019, approximately 70% of our revenues were derived from sales of products and 30% from services. During the same period, we derived 31%, 41%, 17% and 11% of our revenues from Latin America, North America, APAC and EMEA, respectively.

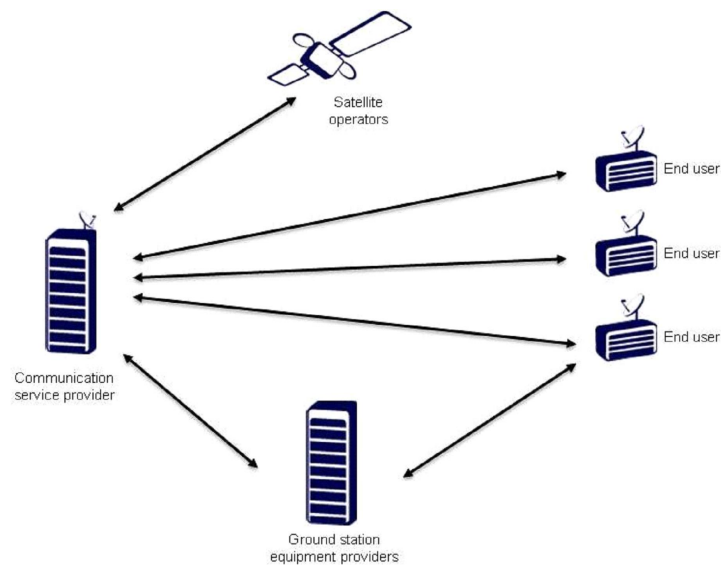
## Industry Overview

There is a global demand for satellite-based communications solutions for a number of reasons. Primarily, satellite-based communication is still the only truly ubiquitous networking solution. Secondly, satellite communications are more readily available as compared to alternative terrestrial communications networks. Lastly, satellite communications solutions offer rapidly deployed secure broadband connectivity and broadband communications on the move.

A two-way broadband satellite communications solution is comprised of the following elements:

- Communications satellite – Typically a satellite in geostationary orbit (synchronized with the earth’s orbit) with a fixed coverage of a portion of the earth (up to approximately one third).
- Satellite communications ground station equipment – These are devices that have a combination of data communications and Radio Frequency, or RF elements designed to deliver data via communication satellites. Examples of ground station equipment are remote site terminals, such as VSATs, central hub station systems, modem, amplifiers, BUCs and antennas.
- VSAT - which is comprised of the following elements:
  - o Modem – This is the device that modulates the digital data into an analog RF signal for delivery to the upconverter, and demodulates the analog signals from the downconverter back into digital data. The modem, which is typically located indoors, performs data processing functions such as traffic management and prioritization and provides the digital interfaces (Ethernet port/s) for connecting to the user’s equipment (PC, switch, etc.).
  - o Amplifiers and BUCs – These are the components that connect the ground station equipment with the antenna. The purpose of the amplifiers and BUCs is to amplify the power and convert the frequency of the transmitted RF signal.
  - o Antenna – Antennas can vary quite significantly in size, power and complexity depending on the ground equipment they are connected to, and their application. For example, antennas connected to remote sites generally are in the range of one meter in diameter while those connected to the central hub system can be in the range of ten meters in diameter. Antennas used on moving platforms need to be compact and have a mechanically or electronically auto-pointing mechanism so that they can remain locked onto the satellite during motion.

Broadband satellite networks are comprised of ground stations at multiple locations that communicate through a satellite in geostationary orbit, providing continent-wide wireless connectivity. Satellite broadband networks are used to provide a variety of traffic types such as broadband data, video and voice. The value chain of satellite network services consists of the following four main elements:



**Satellite operators** provide satellite transponder capacity (a portion of the satellite’s bandwidth and power which is used to establish one or more communication channels) on satellites positioned in geostationary orbit above the equator. A typical satellite can cover a geographic area the size of the continental U.S. or larger. The satellite receives information from the ground station equipment, amplifies it and transmits it back to earth on a different frequency. Satellite operators sell the capacity in a variety of leasing agreements to their customers. Our technology is compatible with C-band, Ku-band and Ka-band satellites including special extended C-band and extended Ku-band satellites. Some of the leading satellite operators are Intelsat, SES, Chinasat, Hispasat and Eutelsat.

**Ground equipment providers** manufacture network equipment for both satellite communications networks and broadcast markets. Satellite communications systems connect a large central earth station, called a hub, with multiple remote sites equipment, called VSATs (ranging from tens to thousands of sites), which communicate via satellite. We are a leading ground equipment provider for hubs, VSATs, high-power amplifiers and low-profile antennas for satellite communications on-the-move.

**Communication service providers** buy equipment from ground equipment providers, install and maintain such equipment, lease capacity from satellite operators and sell a full package of communication services to the end user.

**End users** are customers that use satellite communications equipment and services. Examples of end users range from enterprises, to government ministries and defense organizations, to residential consumers.

**System integrators** are companies that provide customized solutions to end users by integrating the necessary equipment and services. For example, defense organizations often work with specialized system integrators that integrate various components, such as power amplifiers and low profile antennas, into a satellite terminal.

Satellite broadband networks are typically systems deployed in a hub-and-spoke configuration, with remote locations connecting via satellite to a central hub station. Satellite communications networks have a diverse range of uses and applications, and provide communication services as a stand-alone, alternative, or complementary service to terrestrial networks.

We believe that the advantages of satellite communications networks include:

- *Universal availability* – Satellite communications provide service to any location within a satellite footprint.
- *Timely implementation* – Large satellite communications networks with thousands of remote sites can be deployed within a few weeks.
- *Broadcast and multicast capabilities* – Satellite is an optimal solution for broadcast and multicast transmission as the satellite signal is simultaneously received by any group of users in the satellite footprint.
- *Reliability and service availability* – Satellite communications network availability is high due to the satellite and ground equipment reliability, the small number of components in the network and terrestrial infrastructure independence.
- *Scalability* – Satellite communications networks scale easily from a single site to thousands of locations.
- *Cost-effectiveness* – The cost of satellite communications networks is independent of distance and therefore it is a cost-effective solution for networks comprised of multiple sites in remote locations.
- *Applications delivery* – Satellite communications networks offer a wide variety of customer applications such as e-mail, virtual private networks, video, voice, internet access, distance learning, cellular backhaul and financial transactions.
- *Portability and Mobility* – Satellite communications solutions can be mounted on moving platforms for communications on the move, or deployed rapidly for communications in fixed locations and then relocated or moved as required.

Given the technological and implementation benefits afforded by satellite communications networks, we believe that the market for satellite communications products and services will continue to grow. In particular, according to a 2019 report from Northern Sky Research, or NSR, a leading international telecom market research and consulting firm, the number of unit shipments to broadband satellite sites, platforms and subscribers is expected to grow at a compounded annual growth rate, or CAGR, of 19% through 2026.

Further, according to a 2019 report of NSR, aggregated satellite capacity has grown significantly in recent years and is forecasted to grow further in the coming years. According to the report, the growing availability of satellite capacity has resulted in significant reduction in the cost of satellite capacity.

In addition, satellite communication is an effective solution for mobility, especially for maritime applications and for international flights.

New communications networks that integrate satellites operating in low or medium earth orbits (LEO, MEO or NGSO) are scheduled to be launched in the coming years and are forecasted to account for a significant portion of the aggregated satellite capacity and of the equipment unit shipments to broadband satellite sites, platforms and subscribers.

The availability of auto-pointing satellite antennas designed for in-motion two way communications has created market demand from both commercial and government/defense segments. These antennas are usually mounted on a moving platform (airplane, boat, train, unmanned aerial vehicles, or UAVs) and connected to a satellite terminal within or on the platform. An important requirement for these applications is that they have light-weight and low-profile antennas, to minimize air drag and fuel consumption. We believe that the demand for light-weight, low-profile antenna systems will increase as well.

Another important requirement emerging is for next generation solid-state power amplifiers able to provide high output power, greater efficiency and field-proven reliability in smaller, lighter weight product packages suitable for fixed, mobile, and airborne antenna systems. These amplifiers, designed and thoroughly tested for use in extreme environments, help provide uninterrupted connectivity to support mission-critical defense operations, as well as demanding inflight connectivity and consumer broadband applications.

There are six primary market categories that require broadband satellite products and services:

**Enterprise and Business.** End-users include large companies and organizations, Small- Medium Enterprises, or SMEs, and Small Office/Home Office (SOHO) users. For enterprises, satellite communications networks offer network connectivity and deliver voice, data and video within corporations (known as corporate intranets), internet access, transaction-based connectivity that enables on-line data delivery such as point-of-sale (credit and debit card authorization), inventory control and real time stock exchange trading.

**Cellular Backhaul.** Cellular networks comprised of backhaul connections to connect the cellular base stations that serve multiple customers. Cellular backhaul connectivity requires more demanding network performance. These requirements usually include a high level of quality of service, or QoS, high speed connectivity, and more control over the network. Satellite backhaul applications include both primary and backup connectivity.

**Rural Telecommunications.** The rural telecommunications market is comprised of communities throughout the world that require telephone, and internet access in areas that are unserved or underserved by existing telecommunications services. These communication services are usually provided to the rural population via government-subsidized initiatives. This market sector is comprised of “Build-Operate” projects, in which governments subsidize the establishment and the operation of a rural network to be served by a satellite, wireless or cellular service provider that is usually selected in a bid process. In other instances, local communications operators have universal service obligations, or USOs, which require them to serve rural areas lacking terrestrial infrastructure. Some local communications operators elect to fulfill this obligation by hiring third parties in a model known as BOT. In these instances, the network is established and made operational by a third party service provider, which operates it for a certain period of time and then it is transferred to the operator.

**Consumer.** The consumer market consists of residential users. These users require a high-speed internet connection similar to a digital subscriber line, or DSL, or cable modem service.

**Government.** The government sector consists of homeland security and military users. The versatility, reliability, and resiliency of satellite broadband networks, the in-motion low profile antennas and the lightweight SSPAs are a perfect fit for security and armed forces. For example, low power lightweight satellite communications systems can be quickly deployed in disaster areas, as a replacement for destroyed wireless or wire line networks, providing communication services to emergency personnel and law enforcement units.

**Mobility.** The mobility market is comprised of on the move platforms, on land at sea and in the air, such as aircraft, ships, trains and vehicles, that require broadband connectivity. Satellite-based solutions for these platforms include ground network platform, modems, on-the-move antennas and transceivers.



## Our Competitive Strengths

We are a leading provider of satellite communication and networking products and services. Our competitive strengths include:

**Market leadership in large and growing markets.** Since our inception, we have sold more than 1.5 million satellite terminals (VSATs), over 15,000 low profile antennas and over 35,000 BUCs, SSPAs and Transceivers to customers in approximately 90 countries. Our customer base includes a large number of satellite-based communications service providers, system integrators and operators worldwide. In addition, we are one of the largest satellite communications service providers to rural communities in Latin America.

**Technology leadership.** We have been at the forefront of satellite communications technology and services for over 30 years and continue to be an innovator and developer of new satellite technologies. Our customizable satellite communications technology enables us to provide a wide range of broadband, internet, voice, data and video solutions to our customers. We offer hubs and optimized satellite terminals (VSATs) which can attain a rate of up to 400 Mbps and have demonstrated over 1Gbps rates over LEO satellites. Our product and operations infrastructure is capable of running hubs with greater than 99.8% availability while rolling out thousands of new VSAT site locations each month. Our SkyEdge II-c, state-of-the-art solution, provides high performance and space segment efficiency. Our legacy product lines are known for their durability and resilience. We provide advanced on-the-move terminals, including all components such as antennas, BUCs and modems. Our low-profile, satellite communications on-the-move solutions antennas provide reliable broadband communications for commercial and defense applications. Our SSPAs provide high performance, even at the extreme end of temperature and environmental performance specifications. X-Architecture, our new cloud-based distributed architecture, and our Electronically-Steered Array / Phased Array Antenna (ESA/PAA) are our two most recent innovations that, we believe, have positioned us as a leader in providing satellite communications technology. Our research, development and engineering team, comprised of 260 persons, enable us to rapidly develop new features and applications. Moreover, by directly serving end-users through our service organizations, we are able to quickly respond to changing market conditions and maintain our position in the market.

**Global presence and local support.** We have sold our products in approximately 90 countries on six continents. Our products and services are used by a large and diverse group of customers including some of the largest enterprises in the world, several government agencies and many rural communities. We have 20 sales and service offices worldwide. Through our network of offices, we are able to maintain a two-tier customer support program offering local support offices and a centralized supply facility.

**Complementary business lines for turnkey solutions.** Our business segments are able to provide a full turnkey solution to our customers by integrating a diverse range of value-added products and services. Our product and service offerings - satellite communications network equipment, small cell solutions, power amplifiers, low-profile satellite communications on-the-move terminals, antennas, installation, operation and maintenance – provide communication services ranging from broadband, internet, voice, data and video to managed solutions that can be customized and are flexible. Our business model enables us to be attuned to our customers' needs and to adapt to changing market trends. Our satellite communications-based networks sometimes serve as platforms for the delivery of complete systems, providing versatile solutions for enterprises, government agencies, SMEs, rural communities, SOHOs and consumers.

**Diversified revenue streams and customer base.** In the year ended December 31, 2019, approximately 70% of our revenues were generated from equipment sales and 30% of our revenues were generated from services. Our equipment sales are generally independent equipment orders which often generate maintenance contracts and additional opportunities for future equipment sales and also include the revenues from the construction phase of large-scale projects. Our service sales are characterized by long-term contracts that provide a recurring revenue base. In the year ended December 31, 2019, our three business segments, Fixed Networks, Mobility Solutions and Terrestrial Infrastructure Projects, accounted for 48%, 40% and 12% of our revenues, respectively.

**Delivery Capabilities.** Over the years we have demonstrated our ability to deploy communication networks in the most remote areas, which are difficult both to reach and service. This experience enhances both our ability to plan and implement sophisticated communication networks in remote areas, as well as in challenging terrain, and our ability to meet technological challenges like a lack of electrical power infrastructure or a lack of any physical infrastructure. Our teams are proficient in delivering solutions in these areas.

**Experienced management team.** Our management is comprised of an experienced executive team. Both Mr. Dov Baharav, the Chairman of our Board of Directors, and Mr. Yona Ovadia, our Chief Executive Officer, have broad experience in senior executive positions. Mr. Baharav served as Chairman of the Board of Directors of Israel Aerospace Industries Ltd. and was President and CEO and a member of the Board of Directors of Amdocs Management Limited, or Amdocs, (NASDAQ: DOX). Mr. Ovadia served as Group President and Head of Services Group at Amdocs and in various other executive positions.

## **Our Growth Strategy**

Our objective is to leverage our technology and services capabilities in order to:

**Expand Presence in the IFC Market** – We continue to develop our hub and modem technology and our Ka and Ku airborne BUCs, Transceivers and Power supplies to serve connectivity needs of aviation service providers. We are also placing a major focus on developing a flat Electronically Steered antenna leveraging our unique in-house developed ally technology. These solutions are designed to serve the high growth of IFC services in both commercial aviation and business aviation markets. For the business aviation market, we also developed the KA tail mount solution for the business aviation market with a primary target of regional jets.

**Fortify our Leadership Position in the 4G/LTE Backhaul Market** - We intend to continue to leverage our technology, as well as our experience, to serve mobile network operators' 4G/LTE and 5G connectivity needs in rural, metro-edge and metro areas with long term projects.

**Continue to Serve as a Key Partner of VHTS/HTS and NGSO Satellite Operators** – We intend to continue to serve as a meaningful partner of VHTS/HTS operators, leveraging our leading technology in the market and our breadth of services to deploy and operate both GEO and NGSO ground-based satellite communication networks.

**Provide internet Broadband to Rural Areas** – We intend to build on our experience in bringing broadband internet to rural areas in Latin America and identify additional markets to expand into.

## **Our Businesses in 2019**

### **Fixed Networks Segment**

#### *Overview*

Our Fixed Networks segment provides satellite communications network systems and associated professional and managed satellite network services to satellite operators, governments, Telcos and service providers worldwide. Our operational experience in deploying large networks together with our global network of local offices enable us to work closely and directly with those providers. We provide equipment, solutions and services to the commercial, mobile, government, enterprise and consumer markets. We provide solutions tailored to the requirements of individual industries. Based on our open SkyEdge platform, our solutions provide added value to operators through better performance and integration as well as simpler deployment.

Our SkyEdge product family, including SkyEdge II-c products, allow us to deliver efficient, reliable and affordable broadband connectivity such as internet, voice, data and video. As a single platform SkyEdge II-c supports multiple applications such as Broadband Access, Enterprise Cellular Backhaul and Mobility applications.

We also support satellite networking through professional services, training and a full range of turnkey solutions and outsourced network operations.

### *Products and Solutions*

#### *Broadband Satellite Network System*

Our SkyEdge II-c system supports large-scale broadband services for both consumer and enterprise applications, including fast web browsing, high-speed trunking, video streaming, internet Protocol Television, or IPTV, Voice Over internet Protocol, or VoIP, and other bandwidth-intensive services. This system also supports cellular backhauling of 2G, 3G and 4G (LTE) technologies. The SkyEdge II-c is designed with highest scalability supporting multi satellite - multi beam networks, with any number of gateways and user terminals. The SkyEdge II-c platform supports four VSAT types: Scorpio, Gemini, Capricorn and Taurus. It includes a unified, centralized network management system, or NMS which manages all hub elements at all gateways from a central NOC location and enables the definition of different types of virtual network operators to support different types of business models and services in multiple regions. Enhanced FCAPS functions, or fault-management, configuration, accounting, performance, and security, a network management framework created by the International Organization for Standardization and the electronic machine to machine interface, enable full visibility, control and seamless integration with the operator's operations support system/ business support system, or OSS/BSS, environment.

**SkyEdge II-c Scorpio** is a cutting-edge, fully integrated Ka-band terminal. Scorpio unifies in a single weatherproof box all VSAT components, including BUC, Low Noise Block (downconverter) or LNB, OrthoMode Transducer, or OMT, feed assembly and a high speed modem/router. A single cable connects the outdoor Scorpio to the indoor unit and home network, thus providing a simple demarcation point for improved network diagnostics and increased customer satisfaction.

**SkyEdge II-c Gemini** is a family of compact high-throughput routers, designed to enable high speed broadband services while meeting cost efficiencies required by residential customers and businesses. Gemini enables fast web browsing, video streaming, IPTV, VoIP, and other bandwidth intensive services. This solution comes in variations for enterprise applications such as retail, banking, automatic teller machines, or ATMs, lotteries and USO/USF government-funded programs aimed to expand broadband connectivity to underserved regions.

**SkyEdge II-c Capricorn**, including our recently announced, SkyEdge II-c Capricorn PLUS, is a family of ultra-high-performance satellite routers that are used for corporate services, 2G/3G/LTE cellular backhauling, IP trunks and mobility services. For IP trunks and mobility, Capricorn delivers acceleration and packet-per-second performance that support hundreds of users per VSAT. For LTE cellular backhauling, Capricorn includes our patented (granted in Japan, U.S. and patent-pending in other countries) cellular data acceleration technology that enables full LTE speeds of up to 150Mbps for cellular handheld devices. To reach these high return speeds, Capricorn supports both Time Division Multiple Access, or TDMA, and Single Channel Per Carrier, or SCPC, transmission.

**SkyEdge II-c VSATs** provide operational simplicity and reduced operational expenditures. They provide simple, Do-It-Yourself, VSAT installation that expedites deployment and reduces costs. The VSAT kit is designed with minimum assembly parts and an easy to point antenna. In addition, our Ka-band transceiver Scorpio terminals and Ka transceivers are equipped with audible indicators to assist in the fine pointing. The VSAT customer premises equipment, or CPE, includes an intuitive graphical user interface that guide the installer step by step through the installation and service activation process.

Our SkyEdge II product family is the legacy generation of our platform, based on a single hub with multiple VSATs to support a variety of services and applications, are capable of efficiently processing different types of data traffic and ensure that the transmissions via the satellite utilize the available satellite bandwidth efficiently and enhance the user experience.

## *Fixed Networks Solutions*

### *Vertical Solutions*

We target specific vertical markets where our products and solutions are most suitable and in which we have multiple references and credibility. These vertical markets include the consumer market, cellular backhaul, oil and gas, banking and finance and rural and e-government markets, among others.

### *System Integration and Turnkey Implementation*

We have expanded our business beyond core VSAT networks to deliver complete and comprehensive solutions to meet our customers' needs even where VSATs are not the main part of the solution. We see a growth in market demand for vendors capable of fully delivering integrated solutions for interdisciplinary, communication based projects.

In certain other situations, we are required to provide our VSAT solutions in a turnkey mode where we are responsible for the complete end-to-end solution. In the case of turnkey solutions, and occasionally in projects requiring system integrations, we provide our customers with a full and comprehensive solution including:

- Project management – accompanying the customer through all stages of a project and ensuring that the project objectives are within the predefined scope, time and budget;
- Satellite network design – translating the customer's requirements into a system to be deployed, performing the sizing and dimensioning of the system and evaluating the available solutions;
- Deployment logistics – transportation and rapid installation of equipment in all of the network sites;
- Implementation and integration – combining our equipment with third party equipment such as solar panel systems and surveillance systems as well as developing tools to allow the customer to monitor and control the system;
- Operational services – providing professional services, program management, network operations and field services; and
- Maintenance and support – providing 24/7 helpdesk services, on-site technician support and equipment repairs and updates.
- Space segment - where applicable, providing space capacity with back to back agreements with the satellite operators

### *Manufacturing, Customer Support and Warranty*

Our products are designed and tested at our facilities in Israel as well as our four other R&D facilities around the world. We outsource a significant portion of the VSAT manufacturing of our products to third parties. We also work with third-party vendors for the development and manufacture of components integrated into our products, as well as for assembly of components for our products.

We offer a customer care program for our VSAT products, which we refer to as SatCare or SkyCare, and professional services programs that improve customer network availability through ongoing support and maintenance cycles.

As part of our professional services, we provide:

- Outsourced operations such as VSAT installation, service commissioning and hub operations;
- Proactive troubleshooting, such as periodic network analysis, to identify symptoms in advance; and
- Training and certification to ensure customers and local installers are proficient in VSAT operation.

We typically provide a one-year warranty to our customers as part of our standard contract.

In addition, we provide back office support in Peru for subsidized telephony and internet networks as well as for private internet, data and telephony clients including a call center, network operations center, field service maintenance and a pre-paid calling card platform and distribution channels.

#### *Marketing and Sales*

We use both direct and indirect sales channels to market our products, solutions and services. Our Fixed Networks segment has organized its marketing activities by geographic areas, with groups or subsidiaries covering most regions of the world. Our sales teams are comprised of account managers and sales engineers who establish account relationships and determine technical and business requirements for the customer's network. These teams also support the other distribution channels with advanced technical capabilities and application experience. Sales cycles in the VSAT network market vary significantly, with some sales requiring 18 months and even more, from an initial lead through signing of the contract, while sales stemming from an immediate need for product delivery can be completed within two to three months. The sales process includes gaining an understanding of customer needs, several network design iterations and network demonstrations.

#### *Customers and Markets*

We provide our Satellite Communication solutions to satellite operators, governments, system integrators, telecommunication companies and MNOs, satellite communication providers, ISPs, and homeland security and defense agencies. Our customers benefit from:

- a single accountable partner for all of their satellite communication network needs;
- high credibility and experience;
- local presence and partnerships;
- industry-leading technology and system integration;
- flexibility and customization; and
- proven ability to deliver innovative end-to-end solutions.

We sell and distribute our products and provide services internationally, particularly in Latin America, Asia, Asia Pacific, the U.S., Africa, CIS (Russian Commonwealth) and Europe.

We sell VSAT communications networks and solutions primarily to service providers that mostly serve the enterprise consumer, cellular backhauling, and mobility market. We have more than 300 such customers worldwide.

Enterprise and service provider customers use our networks for internet access, broadband data, voice and video connectivity and for applications such as credit card authorizations, online banking, corporate intranet, interactive distance learning, lottery transactions, retail point-of-sale, inventory control and supervisory control and data acquisition, or SCADA, services.

Service providers serving the rural communications market are typically public telephony and internet operators providing telephony and internet services through public call offices, telecenters, internet cafes or pay phones. Some of the rural communication projects are for government customers. Examples of our rural telecom customers include Telefonica in Peru, Cable & Wireless in Panama and SCT in Mexico.

Service providers for the consumer market are typically Telcos planning to expand internet service to the consumer markets.

Our VSAT networks also provide underserved areas with a high-speed internet connection similar to DSL service provided to residential users. Among such customers are Optus in Australia, Hispasat in Latin America, Gazprom Space Systems, or GSS, and Eutelsat in Russia and SBBS in several countries in Europe.

*Public Rural Telecom Services:*

In a large number of remote and rural areas, primarily in developing countries, there is limited or no telephone or internet service, due to inadequate terrestrial telecommunications infrastructure. In these areas, VSAT networks utilize existing satellites to rapidly provide high-quality, cost-effective telecommunications solutions. In contrast to terrestrial networks, VSAT networks are simple to reconfigure or expand, relatively immune to difficulties of topography and can be situated almost anywhere. Additionally, VSATs can be installed and connected to a network quickly without the need to rely on local infrastructure. For example, some of our VSATs are powered by solar energy where there is no existing power infrastructure. Our VSATs provide reliable service, seldom require maintenance and, when necessary, repair is relatively simple.

As a result of the above advantages, there is a demand for government-sponsored, VSAT-based bundled services of fixed telephony and internet access. Many of these government-funded projects have been expanded to provide not only telephony services and internet access, but to also provide tele-centers that can serve the local population. These tele-centers include computers, printers, fax machines, photocopiers and TVs for educational programs. Additional revenue may be received, both in the form of subsidies and direct revenues from the users, when these additional services are provided.

We provide broadband services and public telephony in rural areas, incorporating our hubs, satellite network equipment and terrestrial technologies (typically, fiber-optic and wireless technologies) as described under this Item below. The operation of our terrestrial fixed networks is provided under our fixed networks segment.

Since our first rural telephony project for PRONATEL in Peru in 1998, we have been awarded several of the rural communications projects by the Peruvian government, most of which were finalized through the end of 2019. Overall, we operated approximately 7,500 telephony sites in Peru, and approximately 850 internet services sites, and have been awarded large-scale government contracts to build and operate, or to build, operate and transfer these networks. Additionally, we have developed services for financial sector companies, such as Banco de la Nacion, providing internet, data and telephony services. Our rural networks serve more than six million people.

In December 2013, we were awarded a contract by the Peruvian government (through PRONATEL) for the deployment and operation of a wireless transport and distribution network in the northern Amazonas region of Peru. The contract, including extension worth \$36 million, is for a period of over 12 years.

We expect to generate additional revenues from the PRONATEL Regional Projects to be operated by us by enabling cellular carriers and other service providers to acquire capacity over these networks to address the growing needs for voice, data, and internet in these regions, as well as the development of platforms for e-learning, e-health and similar applications. These additional revenues together with the revenue from the operation of the networks will be part of our Fixed Networks segment revenues, while the construction of the PRONATEL Regional Projects is accounted under our Terrestrial Infrastructure Projects segment (see in this Item below).

Our first project in Colombia was awarded to us in 1999 by the government and was followed by several projects under which Gilat Colombia operated large networks encompassing thousands of rural sites and provided broadband internet connectivity, telephony, fax and other services. In December 2013, we were awarded a project, as part of the Kioscos Digitales project by the Ministry of ITC, for provision of internet/telephony connectivity for assimilation of educational and small communities in 1903 Kioscos sites in rural areas. The contract term was extended several times and concluded in May 2019. This project generated revenues of 312 billion Colombian Pesos (approximately \$103 million) over the life of the contract.

We provide network equipment and related services to selected enterprises and government agencies. In some markets, existing telecom operators are mandated by the government to provide universal services. Providing these services in remote areas is a challenge to these operators, and they sometimes outsource these services to rural telecom service providers. These customers contract with Gilat Peru for VSAT equipment and associated network services to be deployed at customer locations, typically for a contract term of three to five years. We also resell managed terrestrial connectivity equipment and services from facilities-based Local Exchange Carrier partners.

### ***Mobility Segment Solutions***

We provide satellite communication on the move systems with solutions for land, sea and air, while placing major focus on IFC. Our portfolio includes a cloud based VSAT network platform, high-speed modems, high performance on-the-move antennas and high efficiency, high power SSPAs and BUCs.

#### ***SkyEdge Satellite Network System***

We utilize our SkyEdge II-c, to deliver efficient, reliable and affordable broadband connectivity such as internet, voice, data and video in travelling environments. The SkyEdge II-c system supports bandwidth-intensive services with a network management system that manages all hub elements at all gateways from a central NOC location.

#### ***SkyEdge II-c Taurus***

SkyEdge II-c Taurus manages the entire in-flight satellite communication connectivity with simultaneous support for broadband IFC and internet Protocol Television, or IPTV and is a key component of our Ku/Ka aeronautical satellite communication solution, as our ultra-high-performance aero-modem manager (MODMAN) for in-flight connectivity. All SkyEdge II-c VSATs are full-featured IP routers, supporting enhanced IP routing features such as DHCP, NAT/PAT and IGMP. Advanced application-based QoS, guarantees the performance of real-time applications such as VoIP and video streaming, while also supporting other data applications. SkyEdge II-c VSATs also support next generation IPv6 networking.

#### ***Raysat Low-Profile Satellite Communication on the Move Antenna Systems***

Our RaySat series consists of low-profile, in-motion, two-way antennas for satellite communication on the move. Compact, aerodynamic and vehicle-mounted, RaySat antennas deliver mission-critical data and inflight entertainment connectivity including voice and video in real-time and web based information. Our RaySat products operate in Ku, Ka and X bands and are ideal for both civilian and military satellite communication on the move applications such as:

- Inflight Entertainment & Connectivity (IFEC) – Single and Dual Band solutions for commercial, business and military aviation including panel based high efficiency antennas, flat ESA antennas with no moving parts and multibeam operations as well as dish based highly integrated Tail Mount Antenna, or TMA solutions for Business Jets.
- Train Data Connectivity – Reliable and wide band alternative to cellular based data connectivity for trains over satellite supporting high-speed trains. Provides access in remote and rural places with smooth coverage and cross country access with no roaming limitation;
- Military - strategic military advantage by supporting the transfer of real-time intelligence while on-the-move with a small, low profile, hard to track antenna;
- Digital satellite news gathering – always on, no set up time, real-time streaming video;

- First responders - supports vehicles' mobility, agility and stability required for teams to be the first to reach the scene; and
- Search and exploration teams, close-to-shore vessels etc.

A full suite of two-way, low-profile antennas is available with multiple onboard tracking sensors, enabling accurate tracking, short initial acquisition and instantaneous reacquisition. RaySat antenna products are designed, manufactured and assembled at our facilities in Bulgaria.

#### *RaySat Products*

- **RaySat ER7000** maximizes throughput using high-efficiency waveguide panel technology and the antenna's light weight ensures easy and safe vehicle mounting. It has been widely deployed on trains and large vehicles worldwide.
- **RaySat ER6000** is a high capacity versatile dual-band airborne satellite two-way antenna for IFC that is capable of being switched between Ku and Ka bands during flight and can operate in either band as required. This solution enables aeronautical real-time broadband satellite communications for video, voice and data. The antenna is designed to maximize throughput by using high-efficiency waveguide panel technology. Its low profile and light weight will permit easy and safe mounting on aircraft. The rugged antenna structure will be particularly suited for operation in challenging environments, providing reliable, continuous, in-flight broadband communications.
- **Electronically-Steered-Array, Phased-Array Antenna (ESA/PAA)** (Ka, Ku) is an ultra-slim (low-profile) antenna with no moving parts that electronically steers the transmission and reception beams towards the satellite, allowing operation even around the equator. The antenna design is highly scalable, with array dimensions that can be changed to optimally match specific gain requirements, making it suitable for a wide range of mobile platforms (aerial, land and maritime) and various throughput performance needs. Owing to its scalability and ultra-low profile, the antenna is particularly suited to supporting mobile connectivity for platforms that are constrained by size and weight.

RaySat's SR300 (X, Ka, Ku) and ER5000 (Ka, Ku) antennas are the legacy generation of RaySat's antennas.

#### ***Wavestream***

Our Wavestream subsidiary designs and manufactures next generation solid-state power amplifiers for mission-critical defense and broadcast satellite communications systems. Wavestream's innovative, patented Spatial AdvantEdge™ technology provides higher output power, greater reliability and lower energy usage in more compact packages than traditional amplifier solutions. Wavestream's product line meets the growing demand for greater efficiency and significant lifecycle cost reductions for satellite communications systems worldwide.

Wavestream's headquarters, research and development, engineering and manufacturing facilities are located in San Dimas, California, with an additional research and development center in Singapore. Our BUCs are manufactured in the San Dimas facility.

The Wavestream product line addresses the following applications and markets:

- Defense Communications - satellite-based airborne and highly secured point-to-point. This market is typically categorized by customers requiring high quality products – at times for mission critical communications in extreme environmental conditions. The satellite terminals (*e.g.*, VSAT, Single Channel Per Carrier, or SCPC) are usually provided to the defense agencies via system integrators and not directly from the power amplifier suppliers;



- Government - public safety, emergency response and disaster recovery. Similar to the market for defense agencies, though usually less demanding in terms of environmental conditions, these terminals are provided to various local, state and federal agencies that need to manage emergency communications. The satellite terminals (e.g., VSAT, SCPC) are usually provided via system integrators or service providers and not directly from the power amplifier suppliers;
- Commercial terminals - A high power amplifier is used with high-end VSAT terminals for various applications where there is the requirement to transmit large amounts of data. Examples include airborne IFC terminals/antennas in commercial and business airplanes high speed for internet access. The satellite terminals/antennas are usually provided via system integrators, service providers or airframe manufacturers and not directly from the power amplifier suppliers;
- Commercial broadcast - Broadcast providers and teleport operators require high power amplifiers in order to transmit large carriers, such as for TV broadcast, multicast of video and high-speed IP connectivity.

Wavestream's customers include AeroSat, GATR Technologies (a subsidiary of Cubic Corporation), General Dynamics Satcom Technologies, Honeywell International Inc., L-3 Harris, Global Eagle Entertainment Inc., Envistacom LLC. and Tecom.

#### *RF amplifiers, BUCs and transceivers*

The Wavestream product line consists of RF amplifiers, BUCs and transceivers that use solid-state sources to produce high power at microwave and millimeter-wave frequencies. Our Wavestream patented Spatial AdvantEdge™ technology allows us to create more compact product packages that provide higher power, greater reliability and improved efficiency for any mission-critical applications. The spatially power combined amplifier employs a different technique for combining the transistor outputs than traditional Monolithic Microwave Integrated Circuit, or MMIC, based amplifiers. Rather than combining in multiple steps, increasing loss and size with each combining stage, all transistor outputs are combined in a single step. Many amplifying elements synchronously amplify the input signal, and their outputs are combined in free space for very high combining efficiency.

Our Wavestream patented technology allows us to create amplifiers and BUCs with high output power in more compact product packages that generate less heat, use less energy, and reduce lifecycle costs. Our Wavestream products help customers meet the stringent power requirements for mission-critical communications system. We perform full factory acceptance testing on every unit we manufacture and deliver, ensuring each product has guaranteed performance over the full temperature range and over extended frequency bands.

We believe that we have established a leadership position with our compact, highly efficient SSPAs with a field-proven family of Ka, Ku, and X band products. Our Wavestream line of products are designed and tested to meet strenuous requirements for temperature, shock and vibration, over the full range of frequency and at the extremes of environmental performance specifications. Our Wavestream field-proven technology and reputation for innovation and quality drive solutions for multiple applications targeting military, aerospace, commercial and broadcast satellite systems.

#### *Wavestream AeroStream™*

The Wavestream AeroStream™ is a state-of-the-art transceiver for challenging inflight satellite communications environments. AeroStream products meet RTCA/DO-160G, Boeing, Airbus and ARINC specifications for commercial aircraft as well as MIL-STD requirements for military aircraft. The AeroStream™ transceiver is in certification process with the FAA. AeroStream incorporates Wavestream's next generation Spatial AdvantEdge™ technology to provide high power output with greater efficiency and reliability for airborne satellite communications applications. The AeroStream transceiver offers all necessary interfaces to work seamlessly with leading modems and Antenna Control Units, or ACUs, to provide a convenient turnkey solution.

## ***Integrated Solutions***

We offer fully integrated solutions based on our own technology and components. Our integrated solutions feature the highest standards of reliability and efficiency combining our own VSAT/modems, antennas and BUCs. We leverage our innovative and industry-leading technological capabilities from R&D centers around the world.

We provide an integrated quick-deploy mobile Satellite Communication solution for net-centric emergency and battle situations. We offer both commercial and military manpack terminals, named SatRanger and SatTrooper, respectively. These lightweight, portable solutions provide data, video and telephony under the toughest environmental and battle conditions. The small-size antenna can be set up in just a few minutes with automatic pointing and does not require any tools for assembly. The manpacks are highly integrated with our operationally proven components: antennas, built-in modems, BUCs and LNBS, all incorporated into one ruggedized enclosure. Low power consumption enables long hours of battery operation. The manpacks provide high availability, secure communications and excellent performance in extremely low signal to noise ratio conditions.

Our BlackRay Satellite Communication terminals are specially designed for UAV and USV applications. These terminals have been used worldwide in commercial and military applications which require high-throughput communications and minimal size, weight, and power. The system's miniscule dimensions allow Beyond-Line-of-Sight (BLoS) operations for even the smallest platforms, in harsh weather conditions, while supporting video and data downlink and uplink applications. These highly integrated terminals feature best-of-breed antenna, modem and BUC technologies developed and manufactured by us. Customized solutions of the BlackRay platform are also available for specific customer platforms and needs.

- **Unmanned Aerial Vehicles** - Our BlackRay 71 and parabolic systems serve the critical need to exploit the full capabilities of an aircraft's operational range. As one of the industry's smallest and most compact aerial solutions in its category, our integrated approach can dramatically increase mission effectiveness. We offer a full range of Satellite Communication systems for Group 3, 4 and 5 UAVs, operating in Ku-, Ka- and X- band, and available in different sizes and bit rates.
- **Unmanned Surface Vehicles** - Our BlackRay Maritime 300 is a compact system that can be quickly implemented to deliver high-throughput communication, even for small USVs. The BlackRay Maritime 300 has been designed to meet minimal size, weight and power requirements and can transmit more than 2Mbps for IP-based video or data BLoS applications. This maritime terminal delivers spectrum-efficient IP connectivity, adaptive in real time to varying link conditions.

## ***Terrestrial Infrastructure Projects Segment***

### *Overview*

We provide network infrastructure construction of the fiber and microwave network of PRONATEL in Peru mainly through BOT contracts subsidized by the government. Accordingly, we build the infrastructure, act as a licensed telecommunications operator for a defined period and almost in all cases, then transfer the network to the customer.

In March and December 2015, we were awarded four PRONATEL Regional Projects by the Peruvian government with expected revenues of \$393 million, for the construction of networks, operation of the networks for a defined period and their transfer to the government. Pursuant to the PRONATEL Regional Projects awarded in March 2015, we are building fiber-optic transport networks and will operate them for up to one year before transferring them to the Peruvian government. Under the projects awarded in December 2015, we will transfer the transport networks that we build to the Peruvian government immediately upon completion. Additionally, we are constructing access networks, based on wireless technologies that we will operate for 10 years, prior to transferring them to the Peruvian government. The construction phase was extended several times due to continued delays. As a result, the expected duration of these 2015 PRONATEL Regional Projects was significantly prolonged from their scheduled delivery dates and is expected to continue for 14-15 years from their commencement. The construction phase of the first three PRONATEL Regional Projects that were awarded to us in March 2015 was accepted by PRONATEL during 2019. .

In 2018, we were awarded two additional PRONATEL Regional Projects for the construction and operation of networks over approximately 13-15 years with expected revenues of approximately \$154 million. Under these PRONATEL Regional Projects we will deliver transport networks and operate them for up to eighteen months before transferring them to the Peruvian government. The access networks, which we will operate for 10 years, will be owned by us. The construction of the PRONATEL Regional Projects is part of our Terrestrial Infrastructure Projects segment, while the services provided over these networks are part of our Fixed Networks segment (See this Item above).

Our Peruvian subsidiary has local offices in Lima, Peru as well as in the main cities of the regions awarded.

## **Sales and Marketing**

We use direct and indirect sales channels to market our equipment and related services. Our sales team of account managers and sales engineers are the primary account interfaces and work to establish account relationships and determine technical and business demands.

## **Competition**

The telecommunications industry operates in a competitive, rapidly changing market. In some cases, our competitors can also be our customers or partners. Accordingly, maintaining an open and cooperative relationship is important.

In the equipment market, we face competition from providers of satellite communications systems, products and services, such as HNS, ViaSat, ST Engineering iDirect, Comtech and a few other smaller providers. In managed satellite network services solutions our main competitors are Speedcast, SES and Intelsat.

We compete in some HTS markets with competitors such as ViaSat and HNS that have launched high throughput satellites. Although we have entered the HTS market with competitive technology, we continue to expect competition in this market to increase.

Due to the nature of the satellite solution, the VSAT technology is, at times, commercially tied to the satellite technology itself, and, consequently, there may be circumstances where it is difficult for competitors to compete with an incumbent VSAT vendor using the particular satellite.

Our low-profile in-motion antennas compete with products from competitors such as Cobham, ERA, Panasonic, Orbit, Thinkom, C-Com Satellite Systems Inc., Wiworld, Tracstar, L-3 Harris, SATPRO M&C Tech Co., Ltd and Tecom. This market is nascent, and not as mature as the satellite communications or satellite services markets.

Our primary competitors with respect to our BUCs and other Wavestream products are CPI Satcom, General Dynamics Satcom Technologies, Paradise Datacom, Comtech Xicom Technology, Inc., and Mission Microwave Technologies.

Where we primarily operate public rural telecom services (voice, data and internet) and are engaged in construction of fiber-optic transport and access networks based on wireless systems, we typically encounter competition on government subsidized bids from various service providers, system integrators and consortiums. Some of these competitors offer solutions based on VSAT technology and some on terrestrial technologies (typically, fiber-optic and wireless technologies). In addition, as competing technologies such as cellular network and fiber-optic become available in rural areas where not previously available, our business could be adversely affected. We may not be able to compete successfully against current or future competitors. Such competition may adversely affect our future revenues and, consequently, our business, operating results and financial condition.

## Geographic Distribution of Our Business

The following table sets forth our revenues from continued operations by geographic area for the periods indicated below as a percent of our total sales:

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Latin America	31%	36%	47%
North America	41%	36%	26%
APAC	17%	15%	12%
EMEA	11%	13%	15%
Total	100%	100%	100%

### C. Organizational Structure

<u>Significant Subsidiaries</u>	<u>Country/State of Incorporation</u>	<u>% Ownership</u>
1. Gilat Satellite Networks (Holland) B.V.	Netherlands	100%
2. Gilat Colombia S.A.S E.S.P	Colombia	100%
3. Gilat to Home Peru S.A	Peru	100%
4. Gilat do Brazil Ltda.	Brazil	100%
5. Gilat Satellite Networks (Mexico) S.A. de C.V.	Mexico	100%
6. Wavestream Corporation	Delaware (U.S.)	100%
7. Gilat Networks Peru S.A	Peru	100%
8. Gilat Satellite Networks Australia Pty Ltd.	Australia	100%
9. Gilat Satellite Networks (Eurasia) Limited	Russia	100%
10. Gilat Satellite Networks MDC (Moldova)	Moldova	100%
11. Raysat Bulgaria EOOD	Bulgaria	100%
12. Gilat Satellite Communication Technology (Beijing) Ltd.	China	100%
13. Gilat Satellite Networks (Philippines) Inc.	Philippines	100%

### D. Property, Plants and Equipment

Our headquarters are located in a modern office park which we own in Petah Tikva, Israel. This facility consists of approximately 380,000 square feet, a substantial part of which are currently used by us and the remainder is subleased or offered for sublease to third parties.

We have local Global NOCs coverage in Australia, Moldova and Peru from which we perform network services and customer support functions

We own facilities located on approximately 137,150 square feet of land in Backnang, Germany. Since May 2002, these facilities are leased to a third party, which lease expires on August 31, 2020. We own approximately 13,800 square feet of research and development facilities and rent approximately 12,600 square feet of manufacturing facilities in Sofia, Bulgaria, which lease will expire on May 31, 2021, and rent approximately 10,000 square feet in Moldova for research and development, Global service and Global NOC activities. Our Wavestream subsidiary currently occupies approximately 32,500 square feet of office space, research and development and manufacturing facilities in San Dimas. In November 2019 Wavestream entered into a new lease agreement to rent an additional 12,500 square feet, bringing the total space to 45,000 square feet. The new lease agreement will expire on February 28, 2025. Our subsidiaries in Peru currently occupy approximately 33,379 square feet of office space, and NOC facilities in Lima, which leases will expire between 2020 and 2023.

We also maintain facilities in Brazil, Colombia, Mexico, China, Peru, Australia, Thailand, India, Singapore and Russia along with representative offices in Kazakhstan and Indonesia.

We consider our current office space, research and development and manufacturing facilities sufficient to meet our anticipated needs for the foreseeable future and suitable for the conduct of our business.

#### **ITEM 4A: UNRESOLVED STAFF COMMENTS**

There are no unresolved staff comments.

#### **ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

##### **A. Operating Results**

The following discussion of our results of operations should be read together with our audited consolidated financial statements and the related notes, which appear elsewhere in this annual report. 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 annual report.

##### **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, VSATs, amplifiers, high-speed modems, on-the-move antennas and high power SSPAs, BUCs and Transceivers. 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 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, three NOCs which provide Global NOC services 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 operate in three business segments, 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, MNOs, Telcos, and large enterprises and governments worldwide. In addition, it includes our network operation activity in Peru. We focus on HTS, opportunities worldwide, with focus on cellular backhaul and enterprise, 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 the high-growth market of 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, BUCs and transceivers. 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 PRONATEL in Peru.

On January 29, 2020, we entered into the Merger Agreement with Comtech and Merger Sub, pursuant to which, among other things, Comtech will acquire Gilat by way of the merger of Merger Sub with and into Gilat, with Gilat surviving the Merger as a wholly-owned subsidiary of Comtech

Pursuant to the terms and subject to the conditions of the Merger Agreement, each Gilat Share issued and outstanding immediately prior to the effective time of the Merger will be cancelled and extinguished and automatically converted into the right to receive a combination of (A) \$7.18 in cash, without interest, plus (B) 0.08425 of a validly issued, fully paid and nonassessable share of Comtech Common Stock, with cash payable in lieu of fractional shares of Comtech Common Stock, implying, on the date of the Merger Agreement, a total consideration of approximately \$10.25 per Gilat Share, which implied value has declined from such date. See “INTRODUCTION – Comtech merger.”

## Recent Events

The ongoing Coronavirus pandemic that first surfaced in China and is spreading throughout the world has had an adverse effect on our industry and the markets in which we operate. The Coronavirus outbreak has significantly impacted the travel and aviation markets in which our significant IFC customers operate and has resulted in a slowdown of our business with some of these customers. We have experienced postponed orders and suspended decision making in other markets that are likely to be negatively affected by the Coronavirus. As a result, during the first quarter of 2020, we have experienced a significant reduction in our business and expect to record a loss for the quarter. Further, the guidance of social distancing and the requirements to work from home in key territories such as Israel, Peru, China, California, Colombia, Australia, Bulgaria and in other countries, in addition to greatly reduced travel globally, has resulted in a substantial curtailment of business activities, which has affected and is likely to continue to affect our ability to conduct fieldwork as well as deliver products and services. While the majority of our products are manufactured outside of China, certain components and materials for our products are manufactured or procured in China and we also have other operations in Asia. We are unable at this time to estimate the extent of the effect of the Coronavirus on our business. In order to mitigate the impact of the decline in business, we have adopted a plan to reduce our expenses, including a reduction in our headcount as well as other cost savings measures. This public health threat is likely to continue to adversely impact us by its negative impact on our ability to generate revenues due to reduced end-market demand from governments, enterprises and consumers, leading to order delays and cancellations. In addition, certain of our sales and support teams are unable to travel or meet with customers and the threat has caused operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruptions and shutdowns (including as a result of government regulation and prevention measures). Given the potential impact on our businesses as a result of the outbreak, the values or the recoverable amounts of certain assets subsequent to the reporting date may be less than their carrying amounts as of December 31, 2019. The potential decline in value is determined to be a non-adjusting event as management concluded that the cause of the shut down in the series of events that led to the disruptions in operations is not the outbreak itself, but rather the measures taken by the government after the reporting date. Because the outbreak may also result in uncertainties in relation to the assumptions and estimations associated with the measurement of various assets and liabilities in the financial statements that we may not have previously recognized or disclosed, the occurrence of the outbreak has certainly added additional risks that the carrying amounts of assets and liabilities may require certain adjustments within the next financial year which financial effect cannot be reasonably estimated at this stage.

## Financial Statements in U.S. Dollars

The currency of the primary economic environment in which most of our operations are conducted is the U.S. dollar and, therefore, we use the U.S. dollar as our functional and reporting currency. Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Gains and losses arising from non-U.S. dollar transactions and balances are included in the consolidated statements of operations. The financial statements of certain foreign subsidiaries, whose functional currency has been determined to be their local currency, have been translated into U.S. dollars. The assets and liabilities of these subsidiaries have been translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts have been translated using specific rates. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss).

## 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.

In 2019 and 2018, a U.S. system integrator customer of our Mobility Solutions segment accounted for 12% and 15% of our revenues, respectively. In 2019 our service provider customer, which is customer of the Mobility Solutions segment, accounted for 11% of our revenues (in 2018 and 2017 it accounted for less than 10% of our revenues). In 2019, 2018 and 2017, PRONATEL, a customer under Terrestrial Infrastructure Projects and the Fixed Networks segment, accounted for 16%, 10% and 28% of our revenues, respectively.

### *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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial information included in this annual report.

**Consolidation.** Our consolidated financial statements include the accounts of our company and those of our subsidiaries, in which we have a controlling voting interest, as well as entities consolidated under the Variable Interest Entities, or VIEs, provisions of ASC 810, “Consolidation”, or ASC 810. Inter-company balances and transactions have been eliminated upon consolidation.

Most of the activity of Gilat Colombia consists of operating subsidized projects for the Ministry of ITC. The first projects were awarded to our Colombian subsidiaries in 1999 and 2002 and were extended several times. An additional project was awarded to us in 2011 and was completed in December 2013. Another project was awarded to us in 2013 and was extended several times, prior to its conclusion in May 2019.

As required in the bid documents for the Ministry of ITC projects, we established trusts, or the Trusts, and entered into a governing trust agreement for each project, or collectively the Trust Agreements which will remain in effect until the formal conclusion of the project. The Trusts were established for the purpose of holding the network equipment, processing payments to subcontractors, and holding the funds received through the subsidy from the government until they are released in accordance with the terms of the subsidy and paid to us. The Trusts are a mechanism to allow the government to review amounts to be paid with the subsidy and to verify that such funds are used in accordance with the transaction documents and the terms of the subsidy. We generated revenues both from the subsidy, as well as from the use of the network that we operated.

The Trusts are considered VIEs and we are identified as the primary beneficiary of the Trusts. Under ASC 810, we perform ongoing assessments of whether we are the primary beneficiary of a VIE. As our assessment provides that we have the power to direct the activities of a VIE that most significantly impacts the VIE’s activities (we are responsible for establishing and operating the networks), the obligation to absorb losses of the VIE that could potentially be significant to the VIE and the right to receive benefits from the VIE that could potentially be significant to the VIE economic performance, we therefore concluded that we are the primary beneficiary of the Trusts. As such, the Trusts were consolidated in our financial statements since their inception.

The cash held by the Trusts is consolidated within our financial statements and classified as “Restricted cash held by trustees”. The advances from customers received by the Trusts are consolidated within our financial statements and classified as “Advances from customers held by trustees”.



**Revenues.** We generate revenue mainly from the sale of products (including construction of networks), satellite-based communications networks services and from providing connectivity, internet access and telephony services. We sell our products and services to enterprises, government and residential customers under large-scale contracts that utilize both our networks and other networks that we install, mainly based on BOT contracts. These large scale contracts sometimes involve the installation of thousands of VSATs or construction of massive fiber-optic and microwave networks. Sale of products includes mainly the sale of hubs, VSATs, SSPAs, low-profile antennas, on-the-move/on-the-pause terminals, and construction and installation of large-scale networks based on BOT contracts. Sale of services includes access to and communication via satellites, or space segment, installation of 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.

We recognize revenue in accordance with ASC No. 606, "Revenue from Contracts with Customers". As such, we apply the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP") basis. We establish SSP based on management judgment, considering internal factors such as margin objectives, pricing practices and historical sales.

Consideration from contracts that is assessed as not being probable of collection is not recognized as revenue until the contract is completed and cash is received. Collectability is re-assessed when there is a significant change in facts or circumstances. Our assessment of collectability considers whether it may limit our exposure to credit risk through its right to stop transferring additional service in the event the customer is delinquent as well as certain contract terms such as down payments that reduce its exposure to credit risk.

Revenue from the sale of equipment is recognized once the customer has obtained control over the items purchased. When significant acceptance provisions are included in the arrangement, we defer recognizing the revenue until the acceptance occurs. We generally do not grant a right of return to our customers. Revenue from periodic services is recognized ratably over the term the services are rendered. Revenue from other services is recognized upon their completion.

Revenues from contracts under which we provide significant construction to the customer's specifications (mostly governmental projects) are generally recognized over time because of continuous transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. We generally use the cost-to-cost measure of progress for these contracts because it best depicts the transfer of control to the customer, which occurs as costs are incurred on the contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials and subcontractors' costs and other direct and allocated indirect costs. When estimates of total costs to be incurred exceed total estimates of revenue to be earned on the uncompleted contracts, a provision for the entire loss on the contract is recognized in the period the loss is identified.

Under the typical payment terms of government fixed-price contracts, the customer pays us milestones-based payments. Those payments are based on quantifiable measures of performance or on the achievement of specified events or milestones. Because those payments are due upon completion of those milestones, they may result in revenue recognized in excess of billings and are presented as part of contract assets on the balance sheet.

Amounts recognized as revenue and which we have unconditional right to receive are classified as receivables on the balance sheet.

Revenue from products under lease contracts is recognized in accordance with ASC 840 upon installation or upon delivery, in cases where the customer obtains its own or other's installation services. The net investments in sales-type leases are discounted at the interest rates implicit in the leases. The present values of payments due under sales-type lease contracts are recorded as revenue at the time of shipment or installation, as appropriate.

Future interest income is deferred and recognized over the related lease term as financial income.

Deferred revenue and advances from customers are recorded when we receive payments from customers before performance obligations have been performed. Deferred revenue is recognized as revenue as (or when) we perform the performance obligation under the contract.

We pay sales commissions to sales and marketing and certain management personnel based on their attainment of certain predetermined sales goals. Sales commissions earned by our employees are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions are capitalized and amortized upon recognition of the related revenue, consistently with the transfer to the customer of the goods or services to which they relate. Amortization expenses related to these costs are mostly included in sales and marketing expenses in our consolidated statements of operations.

**Income Taxes.** We are subject to income taxation in Israel, the United States and numerous other jurisdictions. Determining our provision for income taxes requires significant management judgment. In addition, our provision for income taxes could be adversely affected by many factors, including, among other things, changes to our operating structure, changes in the amounts of earnings in jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws. We are subject to ongoing tax examinations in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. While we regularly evaluate the likely outcomes of these examinations to determine the adequacy of our provision for income taxes, there can be no assurance that the outcomes of such examinations will not have a material impact on our results of operations and cash flows. In addition, we may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our results of operations or cash flows in the period or periods for which a determination is made.

We must also make judgments regarding the realizability of deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets which we do not believe meet the "more likely than not" criteria. Our judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, tax planning strategies or other factors. If our assumptions and consequently our estimates change in the future, the valuation allowances we have established may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

Significant judgment is required to determine the recognition and measurement attributes prescribed in Accounting Standards Codification, ("ASC 740-10-25"). In addition, ASC 740-10-25 applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes. Further, as a result of certain of our ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates. Our failure to meet these commitments could adversely impact our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by Israeli, U.S. and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our results of operations.

**Accounts Receivable and Allowance for Doubtful Accounts.** We are required to estimate our ability to collect our trade receivables. A considerable amount of judgment is required in assessing their ultimate realization. We provided allowances for receivables relating to customers that were specifically identified by our management as having difficulties paying their respective receivables. If the financial condition of our customers deteriorates, resulting in their inability to make payments, additional allowances may be required. These estimates are based on historical bad debt experience and other known factors pertaining to these customers. If the historical data we used to determine these estimates does not properly reflect future realization, additional allowances may be required.

**Inventory Valuation.** We are required to state our inventories at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes an analysis of sales levels by product and projections of future demand. We write-off inventories that are considered obsolete. Remaining inventory balances are adjusted to the lower of cost or net realizable value. If future demand for our old or new products or market conditions is less favorable than our projections, inventory write-offs may be required and would be reflected in cost of revenues for such period.

**Lease.** Effective January 1, 2019, we adopted the requirements of FASB ASU 2016-02, Leases (Topic 842) which defines a lease as any contract that conveys the right to use a specific asset for a period of time in exchange for consideration. Leases are classified as a finance lease, formerly called a capital lease, if any of the following criteria are met:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset.
- The present value of the sum of lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
- The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

For any leases that do not meet the criteria identified above for finance leases, we treat such leases as operating leases. As of December 31, 2019, each of our leases are classified as operating leases. Under the new guidance, both finance and operating leases are reflected on the balance sheet as lease or "right-of-use" assets and lease liabilities. It should be noted that under previous guidance operating leases (non-capital leases) were not required to be recorded as an asset on the balance sheet.

There are some exceptions, which we elected in our accounting policies. For leases with terms of twelve months or less, or below our general capitalization policy threshold, we elected an accounting policy to not recognize lease assets and lease liabilities for all asset classes. We recognize lease expense for such leases generally on a straight-line basis over the lease term.

We determine if a contract is a lease at the inception of the arrangement. We review all options to extend, terminate, or purchase its right-of-use assets at the inception of the lease and accounts for these options when they are reasonably certain to be exercised. Certain leases contain non-lease components, such as common area maintenance, which are generally accounted for separately. In general, we will assess if non-lease components are fixed and determinable, or variable, when determining if the component should be included in the lease liability. For purposes of calculating the present value of the lease obligations, we utilize the implicit interest rate within the lease agreement when known and/or determinable, and otherwise utilize our incremental borrowing rate at the time of the lease agreement.

**Impairment of Intangible Assets and Long-Lived Assets.** We periodically evaluate our intangible assets and long-lived assets (mainly property and equipment) in all of our reporting units for potential impairment indicators in accordance with ASC 360, “Property, Plant and Equipment”, or “ASC 360”. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions, operational performance and prospects of our acquired businesses and investments. Our long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In measuring the recoverability of assets, we are required to make estimates and judgments in assessing our future cash flows which derive from the estimated useful life of our current primary assets, and compare that with the carrying amount of the assets. Additional significant estimates used by management in the methodologies employed to assess the recoverability of our long-lived assets include estimates of future short-term and long-term growth rates, useful lives of assets, market acceptance of products and services, our success in winning bids and other judgmental assumptions, which are also affected by factors detailed in our risk factors section in this annual report.

During 2019 and 2018, we did not identify any impairment losses of long-lived assets. Future events could cause us to conclude that impairment indicators exist, and that additional long-lived assets and intangible assets associated with our acquired businesses are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

**Goodwill.** Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350 “Intangibles - Goodwill and Others”, or ASC 350, goodwill is not amortized, but rather is subject to an annual impairment test. ASC 350 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written off if and to the extent it is impaired. We conduct our impairment testing in the fourth quarter of each year, or more often if there are indicators of impairment present. We first assess qualitative factors, for all of our reporting units, to determine whether it is necessary to perform the quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required, otherwise the goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. Fair value is determined using discounted cash flows. Significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting units.

In 2019 we performed both qualitative and quantitative assessments and concluded that no impairment of goodwill was required to be recorded. In 2018 and 2017, following an improvement in the Mobility Solutions segment results, we performed a qualitative assessment only and concluded that it is not more likely than not that the fair value of the reporting units is less than their carrying amounts and accordingly it is unnecessary to perform the two-step quantitative goodwill impairment test.

**Legal and Other Contingencies.** We are currently involved in certain legal and other proceedings and are also aware of certain tax and other legal exposures relating to our business. We are required to assess the likelihood of any adverse judgments or outcomes of these proceedings or contingencies as well as potential ranges of probable losses. A determination of the amount of accruals required, if any, for these contingencies is made after careful analysis.

Liabilities related to legal proceedings, demands and claims are recorded in accordance with ASC 450, “Contingencies”, or ASC 450, which defines a contingency as “an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.” In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable and when the amount of loss can be reasonably estimated. It is possible, however, that future results of operations for any particular quarter or annual period could be materially affected by changes in our assumptions, the actual outcome of such proceedings or as a result of the effectiveness of our strategies related to these proceedings.

**Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

**Revenues.** Revenues for the years ended December 31, 2019 and 2018 for our three segments were as follows:

	Year Ended December 31,		Percentage change	Year Ended December 31,	
	2019	2018		2019	2018
	U.S. dollars in thousands			Percentage of revenues	
Fixed Networks	127,265	144,208	(11.7)%	48.3%	54.1%
Mobility Solutions	104,665	97,180	7.7%	39.7%	36.5%
Terrestrial Infrastructure Projects	31,562	25,003	26.2%	12.0%	9.4%
<b>Total</b>	<b>263,492</b>	<b>266,391</b>	<b>(1.1)%</b>	<b>100.0%</b>	<b>100.0%</b>

Our total revenues for the years ended December 31, 2019 and 2018 were \$263.5 million and \$266.4 million, respectively. The decrease in 2019 is mainly attributable to a decrease of approximately \$16.9 million in Fixed Networks revenues, largely offset by an increase of \$7.5 million in Mobility Solutions revenues and an increase of \$6.5 million in Terrestrial Infrastructure Projects revenues.

The decrease in Fixed Networks revenues is attributable mainly due to the completion of our project for the Ministry of ITC in Colombia in the second quarter of 2019, which was partially offset by an increase in revenue due to the start of the operational phase for the first three awarded Regional Projects in Peru.

The increase in our Mobility Solutions revenues is primarily attributable to an increase in sales related to IFC, US DoD and NGSO markets.

The increase in Terrestrial Infrastructure Projects revenues is primarily attributable to the PRONATEL Regional Projects as the first three awarded Regional Projects (Huancavelica, Ayacucho, Apurimac) were completed in 2019, as well as the ramp-up in the fourth Regional Project (Cusco), which in its final stages.

**Gross profit.** The gross profit and the gross margin of our three segments for the years ended December 31, 2019 and 2018 was as follows:

	Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
	U.S. dollars in thousands		Percentage of revenues	
Fixed Networks	47,227	50,463	37.1%	35.0%
Mobility Solutions	51,402	49,185	49.1%	50.6%
Terrestrial Infrastructure Projects	(2,752)	(5,611)	(8.7)%	(22.4)%
<b>Total</b>	<b>95,877</b>	<b>94,037</b>	<b>36.4%</b>	<b>35.3%</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 36.4% in 2019 from 35.3% in 2018. The increase in our gross profit margin in the year ended December 31, 2019 is as a result of the following:

- The decrease in the gross profit margin of the Mobility Solutions in the year ended December 31, 2019 is mainly due to less favorable revenue mix.
- The increase in the Fixed Networks gross profit margin in the year ended December 31, 2019 compared to the year ended December 31, 2018 is mainly attributable to better revenue mix, the resolution of a dispute with one of our vendors in Colombia which resulted in a reversal of a previous accrual and lower inventory write offs. .
- 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:**

	<b>Year Ended December 31,</b>		<b>Percentage change</b>
	<b>2019</b>	<b>2018</b>	
	<b>U.S. dollars in thousands</b>		
<b>Operating expenses:</b>			
Research and development, net	30,184	33,023	(8.6)%
Selling and marketing	21,488	22,706	(5.36)%
General and administrative	18,633	17,024	9.45%
<b>Total operating expenses</b>	<b>70,305</b>	<b>72,753</b>	<b>(3.36)%</b>

Our research and development expenses are incurred by our Fixed Networks and Mobility Solutions. Research and development expenses, net decreased by approximately \$2.8 million in 2019 compared to 2018. The decrease in expenses is mainly related 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 \$1.2 million in the year ended December 31, 2019 compared to the year ended December 31, 2018. This decrease is mainly due to a decrease in headcount and sales incentive and agent commissions.

General and administrative expenses increased by approximately \$1.6 million in the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase is mainly attributable to non-cash stock-based compensation expenses resulting from option modifications, salary related expenses mainly as a result of severance expenses due to an internal re-organization and higher bad debt expenses.

**Financial expenses, net.** In the year ended December 31, 2019 and 2018, we had financial expenses of \$2.6 million and \$4.3 million, respectively.

**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 year ended December 31, 2019 we had a tax benefit of approximately \$13.6 million compared to tax benefit of approximately \$1.4 million in the year ended December 31, 2018. During the year ended December 31, 2019, we determined that the positive evidence outweighs the negative evidence for deferred tax assets in Israel and concluded that these deferred tax assets are realizable on a "more likely than not" basis. This determination was mainly due to expected future results of positive operations and earnings history.

#### **Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

Please see Item 5 in our Annual Report on Form 20-F for the Year ended December 31, 2018, filed on March 18, 2019 for this comparison.

#### **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.

#### **Conditions in Israel**

We are organized under the laws of the State of Israel, where we also maintain our headquarters and a material portion of our laboratory capacity and principal research and development facilities. See Item 3.D. "Key Information – Risk Factors – Risks Relating to Our Location in Israel" for a description of governmental, economic, fiscal, monetary or political factors that have materially affected or could materially affect our operations.

#### **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 2019, the rate of inflation in Israel was 0.84% and the U.S. dollar appreciated in relation to the NIS at a rate of 7.8%, from NIS 3.748 per \$1 on December 31, 2018 to NIS 3.456 per \$1 on December 31, 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.

#### **Recently Adopted Accounting Pronouncements**

We adopted Accounting Standards Update (“ASU”) No. 2017-12, “Derivatives and Hedging” (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amended the eligibility criteria for hedged items and transactions to expand an entity’s ability to hedge nonfinancial and financial risk components. The new guidance eliminates the requirement to separately measure and present hedge ineffectiveness and aligns the presentation of hedge gains and losses with the underlying hedge item. The new guidance also simplifies the hedge documentation and hedge effectiveness assessment requirements. The amended presentation and disclosure requirements were adopted on a prospective basis, while any amendments to cash flow and net investment hedge relationships which existed on the date of adoption were applied on a “modified retrospective” basis, meaning a cumulative effect adjustment to the opening balance of retained earnings as of the beginning of the year of adoption. The new guidance was effective for our company on January 1, 2019 and the adoption did not have a material impact on our consolidated financial statements

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 will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. 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”. Topic 842 became effective for our Company beginning January 1, 2019. See also Critical Accounting Policies and Estimates above.

#### **Recently Issued Accounting Pronouncements**

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. We are currently evaluating the expected impact of the standard on our consolidated financial statements.



## B. 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 December 31, 2019, we had cash and cash equivalents of \$74.8 million, short-term and long-term restricted cash of \$27.2 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 short-term restricted cash held in trustees' accounts of \$4.3 million.

In April 2019, we distributed a cash dividend of \$0.45 per share (approximately \$24.9 million in the aggregate). This was the first time that we distributed a cash dividend. We have not adopted a general policy regarding the distribution of dividends and make no statements as to the distribution of dividends in the foreseeable future.

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

As of December 31, 2019, our long-term debt was approximately \$8.1 million, comprised of long-term loans of \$4.0 million and current maturities of long-term loans of \$4.1 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 December 31, 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). The surety bonds issued by Amtrust expired in December 2019 after completion of the relevant milestone in the PRONATEL Regional Projects. Under the arrangements with FIBI and HSBC, we are required to observe certain conditions, including the requirement to maintain an amount of restricted cash and to satisfy certain financial and other covenants. As of December 31, 2019, we are in compliance with these conditions and 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>Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>		
Net cash provided by (used in) operating activities	34,782	32,017	(17,223)
Net cash used in investing activities	(7,982)	(10,759)	(3,692)
Net cash used in financing activities	(28,936)	(2,321)	(4,012)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(99)	(1,490)	51
Net increase (decrease) in cash, cash equivalents and restricted cash	(2,235)	17,447	(24,876)
Cash, cash equivalents and restricted cash at beginning of the period	104,204	86,757	111,633
Cash, cash equivalents and restricted cash at end of the period.	<u>101,969</u>	<u>104,204</u>	<u>86,757</u>

Our cash, cash equivalents and restricted cash decreased by approximately \$2.2 million during the year ended December 31, 2019 as a result of the following:

*Operating activities.* Cash provided by our operating activities was approximately \$34.8 million in 2019 compared to approximately \$32 million in 2018. The cash provided by our operating activities in 2019 was primarily attributable to our improved operating results, including payments received from our operations in Peru in 2019.

*Investing activities.* Cash used in investing activities was approximately \$8.0 million in 2019 compared to approximately \$10.8 million in 2018. The changes in our cash in 2019 derived from lower purchase of property and equipment in 2019.

*Financing activities.* Cash used in financing activities was approximately \$28.9 million in 2019 compared to cash used in financing activities of approximately \$2.3 million in 2018. The cash used in financing activities is mainly due to dividend payment of \$24.9 million and repayments of long term loans.

#### **Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

Please see Item 5 in our Annual Report on Form 20-F for the Year ended December 31, 2018, filed on March 18, 2019 for this comparison

#### **C. Research and Development**

We devote significant resources to research and development projects designed to enhance our hubs, VSATs, Satellite Communication on-the-move antennas BUCs, SSPAs and Transceivers products and to multiply the applications for which they can be used. In particular, we continue to invest into expanding our portfolio to address mobility applications, both IFC and maritime as well as cellular backhaul solutions. We intend to continue to devote substantial resources to complete the development of certain features, including improving functionality, support higher throughput, improving space segment utilization and network resilience, thereby contributing to reducing the cost of proposed solutions for our customers.

We conduct our research and development activities in Israel, Bulgaria, Moldova, the United States (California) and Singapore. Our Bulgarian center focuses on developments related to our Satellite Communication on-the-move antennas, or SOTM antennas. Our facilities in California and Singapore are dedicated to the continuing design and development of BUCs, SSPAs and Transceivers. Our facilities in Moldova and Israel work on research and development of VSATs, baseband equipment and network management. A dedicated group in our R&D center in Israel develops state-of-the-art Radio Frequency Integrated Circuits, or RFICs, for our ESA SOTM antennas.

In 2019, we invested heavily in development of the SOTM antennas for IFC applications. In addition, we invested in development of our ESA SOTM antennas.

We devoted significant research and development resources over the last few years to the development of our SkyEdge family of products, including development of our own proprietary hardware platforms for both baseband equipment and software. In 2019, we invested heavily in improving space spectral efficiency, including release of the new VSAT platform supporting advanced coding schemas, in developing new enhanced functionality for IFC application and global bandwidth management. We continued to invest in optimizing solutions for cellular backhaul, improving throughput, supported security and resilience. We develop our own network software as well as software for our VSATs.

Our software and our internally developed hardware are proprietary and we have implemented protective measures both of a legal and practical nature. We have obtained and registered patents in the U.S. and in various other countries in which we offer our products and services. We rely upon the copyright laws to protect against unauthorized copying of the object code of our software and upon copyright and trade secret laws for the protection of the source code of our software. We derive additional protection for our software by generally licensing only the object code to customers and keeping the source code confidential. In addition, we enter into confidentiality agreements with our customers and other business partners to protect our software technology and trade secrets. We have also obtained trademark registrations in the U.S. and various other countries for additional protection of our intellectual property. Despite all of these measures, it is possible that competitors could copy certain aspects of our technology or obtain information that we regard as a trade secret in violation of our legal rights.

We participate in various programs under which we have received and are eligible to receive research and development grants for financing research and development projects in Israel, pursuant to the provisions of The Encouragement of Industrial Research and Development Law, 1984. We are also participating in grant research programs of the European Union, Horizon 2020 and from time to time we participate in programs through bilateral R&D foundations such as Canada Israel R&D foundation (CIIRD). With respect to some of our funding programs, we are obligated to pay royalties from the revenues derived from products developed within the framework of such programs. However, most of our programs are non-royalty bearing programs.

The following table sets forth, for the years indicated, our gross research and development expenditures, the portion of such expenditures which was funded mainly by non-royalty bearing grants and the net cost of our research and development activities:

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(U.S. dollars in thousands)</b>		
Gross research and development costs .	32,208	34,449	29,433
Less:			
Grants.	2,024	1,426	1,419
Research and development costs - net .	<u>30,184</u>	<u>33,023</u>	<u>28,014</u>

#### **D. Trend Information**

The satellite communications industry is moving toward HTS technology that employs multi-beam transmission for more efficient use of space segment. In addition to GEO-HTS, new satellite constellations of HTS-MEO and HTS-LEO (NGSO) are scheduled to be launched in the coming years. With the scheduled launch of numerous HTS, we believe that development of products using this technology for the different satellites and constellations will be an important competitive factor in the satellite communications market. We are continuing our efforts to enhance our current products and develop new ones to support the advantages of this technology.

The continued increase in HTS supply is projected to produce a reduction in bandwidth price. This reduction is expected to make satellite communications economically viable for more broadband, cellular and mobility applications. Accordingly, satellite communications are expected to economically increase cellular coverage and service in rural, metro-edge and metro areas in developed and developing countries.

We continue to focus on the mobility trend which has been driven by the projected growth of mobility applications, especially on airplanes, and also on trains and seagoing vessels, as well as defense-related applications.

In the past few years the satellite communications market has experienced increasing competition both from within its sector and from competing communication technologies. Specifically, the expansion of cellular coverage in rural areas worldwide, increased terrestrial infrastructures as well as the advancement of wireless technologies, increases the options for our potential and existing customers. In addition, the number of satellite communications providers in the market has increased and prices of technologies continue to decline. Another development in our industry is the increasing demand for complete solutions which encompass far more than a single platform of a communications solution.

We believe that the political environment in Israel could continue to prevent certain countries from doing business with us and this, in addition to the increased competition and reduced prices in the telecommunications industry overall, may have an adverse effect on our business. Given all of the above, we cannot guarantee or predict what our sales will be, what trends will develop, and if any changes in our business and marketing strategy will be implemented.

The ongoing Coronavirus pandemic that first surfaced in China and is spreading throughout the world has had an adverse effect on our industry and the markets in which we operate. The Coronavirus outbreak has significantly impacted the travel and aviation markets in which our significant IFC customers operate and has resulted in a slowdown of our business with some of these customers. We have experienced postponed orders and suspended decision making in other markets that are likely to be negatively affected by the Coronavirus. As a result, during the first quarter of 2020, we have experienced a significant reduction in our business and expect to record a loss for the quarter. Further, the guidance of social distancing and the requirements to work from home in key territories such as Israel, Peru, China, California, Colombia, Australia, Bulgaria and in other countries, in addition to greatly reduced travel globally, has resulted in a substantial curtailment of business activities, which has affected and is likely to continue to affect our ability to conduct fieldwork as well as deliver products and services. While the majority of our products are manufactured outside of China, certain components and materials for our products are manufactured or procured in China and we also have other operations in Asia. We are unable at this time to estimate the extent of the effect of the Coronavirus on our business. In order to mitigate the impact of the decline in business, we have adopted a plan to reduce our expenses, including a reduction in our headcount as well as other cost savings measures. This public health threat is likely to continue to adversely impact us by its negative impact on our ability to generate revenues due to reduced end-market demand from governments, enterprises and consumers, leading to order delays and cancellations. In addition, certain of our sales and support teams are unable to travel or meet with customers and the threat has caused operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruptions and shutdowns (including as a result of government regulation and prevention measures). Given the potential impact on our businesses as a result of the outbreak, the values or the recoverable amounts of certain assets subsequent to the reporting date may be less than their carrying amounts as of December 31, 2019. The potential decline in value is determined to be a non-adjusting event as management concluded that the cause of the shut down in the series of events that led to the disruptions in operations is not the outbreak itself, but rather the measures taken by the government after the reporting date. Because the outbreak may also result in uncertainties in relation to the assumptions and estimations associated with the measurement of various assets and liabilities in the financial statements that we may not have previously recognized or disclosed, the occurrence of the outbreak has certainly added additional risks that the carrying amounts of assets and liabilities may require certain adjustments within the next financial year which financial effect cannot be reasonably estimated at this stage.

#### **E. Off-Balance Sheet Arrangements**

At times, we guarantee the performance of our work to some of our customers, primarily government entities. Guarantees are often required for our performance during the installation and operational periods of long-term rural telephony projects such as in Latin America, and for the performance of other projects (government and corporate) throughout the rest of the world. The guarantees typically expire when certain operational milestones are met. In addition, from time to time, we provide corporate guarantees to guarantee the performance of our subsidiaries. No guarantees have ever been exercised against us.

In order to guarantee our performance obligations and the down payment we received under the PRONATEL Regional Projects, we provided bank guarantees by FIBI and by HSBC and surety bonds by Amtrust through a Peruvian bank. The surety bonds issued by Amtrust expired on December 2, 2019 after reaching the relevant milestone in the PRONATEL Regional Projects. The aggregate amount of the bank guarantees issued on our behalf by HSBC and FIBI as of December 31, 2019, was approximately \$99.3 million. We have provided HSBC and FIBI with various pledges and have deposited approximately \$24.2 million held as restricted cash as collateral for HSBC and FIBI guarantees.

Our credit and guarantee agreements also contain various covenants, restrictions and limitations that may impact us. These covenants, 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. As of December 31, 2019, the aggregate amount of bank guarantees outstanding to secure our various performance obligations was approximately \$106.0 million, including an aggregate of approximately \$102.7 million on behalf of our subsidiaries in Peru. We have restricted cash of approximately \$27.2 million as collateral for these guarantees.

In order to guarantee our performance obligations for our current activities in Colombia, we purchased insurance from an insurance company in Colombia to guarantee our various contractual and other obligations, including our performance and our employee salary and benefit costs, of approximately 95.7 billion Colombian Pesos (approximately \$29.2 million based on the representative rate of exchange published as of December 31, 2019).

## F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations as of December 31, 2019 and the effect we expect them to have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by period (in U.S. dollars in thousands)				
	Total	2020	2021-2022	2023-2024	2025
Long-term loans *	8,096	4,096	4,000	-	-
Operating lease (mainly offices)	5,596	2,019	3,044	521	12
Space segment services	12,494	8,402	4,092	-	-
Purchase commitments (mainly inventory)	24,939	24,939	-	-	-
Total contractual cash obligations	51,125	39,456	11,136	521	12

(\* ) Future interest payments are not included due to variability in interest rates.

## ITEM 6: DIRECTORS AND SENIOR MANAGEMENT

### A. Directors and Senior Management

The following table sets forth the name, age, position(s) and a brief account of the business experience of each of the directors and executive officers:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Dov Baharav	69	Chairman of the Board of Directors
Yona Ovadia	60	Chief Executive Officer
Amiram Boehm (3)	48	Director
Dafna Cohen (1)(2)(4)(5)	50	Director
Ishay Davidi	58	Director
Aylon (Lonny) Rafaeli (1) (2)(4)	66	Director
Meir Shamir (3)	68	Director
Dafna Sharir (1)(4)	51	Director
Elyezer Shkedy (1)(2)(4)(5)	61	Director
Adi Sfadia	49	Chief Financial Officer
Yuval Shani	54	Chief Operating Officer
Michal Aharonov	48	Vice President, Global Broadband Networks
Ron Levin	45	Vice President, Mobility and Global Accounts
Alik Shimelmits	58	Chief Technology and Product Officer
Nirit Barnea	52	Vice President, Human Resources
Noam Rosenfeld	52	Vice President, Research & Development

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

(3) "Independent Director" under the applicable NASDAQ Marketplace Rules (see explanation below)

(4) "Independent Director" under the applicable NASDAQ Marketplace Rules and the applicable rules of the SEC (see explanation below)

(5) "External Director" as required by Israel's Companies Law (see explanation below)

**Dov Baharav** has served as the Chairman of our Board of Directors since May 2014 and also served as our interim Chief Executive Officer from May 2015 until March 31, 2016. Mr. Baharav has served as the chairman of the board of directors of Cyberint Inc., a provider of cyber security services and products solutions, since October 2014. Mr. Baharav has served as a member of the board of directors of Mellanox Technologies Ltd., a supplier of end-to-end InfiniBand and Ethernet connectivity solutions, since November 2010 till October 2018. Mr. Baharav served as the chairman of the board of directors of Israel Aerospace Industries, Ltd., a defense and civil aerospace technology company, from July 2011 until October 2013. Mr. Baharav served as a member of the Board of directors of Allot Communications Ltd., a global provider of intelligent broadband solutions, from March 2013 until July 2014. From July 2002 until November 2010, Mr. Baharav served as president and chief executive officer of Amdocs Limited, a communications services company. He also served as a member of Amdocs' board of directors and executive committee from July 2002 until November 2010. Mr. Baharav joined Amdocs in 1991 as vice president and then became president of Amdocs' principal U.S. subsidiary, Amdocs, Inc., and served as chief financial officer of Amdocs from 1995 until June 2002. From 1983 until 1991, Mr. Baharav served as chief operating officer of Oprotech Ltd., an electro-optical device company. Mr. Baharav is Chairman of the scholarship fund of the College of Management Academic Studies in Rishon Lezion, Israel. Mr. Baharav holds a Bachelor of Science degree in Physics and Accounting, as well as an M.B.A. degree from Tel Aviv University, Israel.

**Yona Ovadia** joined our company in March 2015 as Vice President, Services and Commercial Division. He has served as our Chief Executive Officer since March 31, 2016. Prior to joining our company, Mr. Ovadia served as Group President & Head of Services Group at Amdocs from 2013 to 2015. Prior to such time, from 2010 until 2013 Mr. Ovadia served as Head of Delivery & Managed Services at Amdocs Ltd. and prior thereto he served in various executive positions at Amdocs, mainly in the areas of services and managed services, with a position as management member since 1997. Mr. Ovadia holds a B.Sc. degree in Mathematics and Computer Science from Tel Aviv University, Israel.

**Amiram Boehm** has served on our Board of Directors since December 2012. Mr. Boehm has been a Partner in the FIMI Opportunity Funds, Israel's largest group of private equity funds, since 2004. Mr. Boehm serves as a director of Ham-Let (Israel-Canada) Ltd., Hadera Paper Ltd (TASE), Rekah Pharmaceuticals Ltd (TASE), Pharm-up Ltd (TASE), TAT Technologies Ltd. (NASDAQ, TASE), PCB Technologies Ltd. (TASE) and DIMAR Ltd, DelekSon Ltd and Galam Ltd. Mr. Boehm previously served as the Managing Partner and Chief Executive Officer of FITE GP (2004), and as a director of Ormat Technologies Inc. (NYSE, TASE), Scope Metal Trading, Ltd. (TASE), Inter Industries, Ltd. (TASE), Global Wire Ltd. (TASE), Telkooor Telecom Ltd. (TASE) and Solbar Industries Ltd. (previously traded on the TASE). Prior to joining FIMI, from 1999 until 2004, Mr. Boehm served as Head of Research of Discount Capital Markets, the investment arm of Israel Discount Bank. Mr. Boehm holds a B.A. degree in Economics and a LL.B. degree from Tel Aviv University, Israel and a Joint M.B.A. degree from Northwestern University and Tel Aviv University, Israel.

**Dafna Cohen** has served on our Board of Directors as an external director (within the meaning of the Israeli Companies Law) since December 2014. Ms. Cohen is the Head of Business Control and Investor Relations of EL-AL Israel Airlines Ltd. (TASE) and also serves as an independent business and financial advisor. Ms. Cohen served as Director of Global Treasury of MediaMind Technologies Inc. (previously traded on NASDAQ) from 2010 to 2011. Prior to that, Ms. Cohen served as a Director of Investments and as a Treasurer of Emblaze Ltd. from 2005 to 2009 (London Stock Exchange). Prior to that, Ms. Cohen served as an Investment Manager for Leumi Partners and as a manager and a dealer at the derivatives Sector of Bank Leumi. Ms. Cohen previously served as a member of board of directors of Formula Systems (1985) Ltd. (NASDAQ and TASE) from 2009 until January 2019, XTL Biopharmaceuticals Ltd. (NASDAQ and TASE) from 2009 to 2015, Europort Ltd. (TASE) and of Inventech Central Ltd. (TASE). Ms. Cohen holds a B.A. degree in Economics and Political Science and a M.B.A. degree in Finance and Accounting, both from The Hebrew University of Jerusalem, Israel.

**Ishay Davidi** has served on our Board of Directors since December 2012. Mr. Davidi is the Founder and has served as Chief Executive Officer of the FIMI Opportunity Funds, Israel's largest group of private equity funds, since 1996. Mr. Davidi currently serves as Chairman of the board of directors of Hadera Paper Ltd. (TASE) and Polyram plastics, Dimar Cutting Tools, and as director at Ham-Let (Israel-Canada) Ltd. (TASE), Rekah Pharmaceuticals Ltd. (TASE), Tadir-Gan Precision materials (TASE), C. Mer Industries Ltd. (TASE), GI Ltd., (TASE), SOS Ltd., DelekSon Ltd., Bet Shemesh Engines Holdings (TASE), Kamada LTD (TASE NASDAQ) and P.C.B Technologies Ltd (TASE). Mr. Davidi previously served as the Chairman of the board of directors of Inrom Industries Ltd. Retalix (previously traded on NASDAQ and TASE) from August 2008 until January 2010, of Tefron Ltd. (New York Stock Exchange and TASE) and of Tadir-Gan (TASE), and as a director at Pharm Up Ltd (TASE), Ormat Industries Ltd. (previously traded on TASE), Retalix, Tadiran Communications Ltd. (TASE), Lipman Electronic Engineering Ltd. (NASDAQ and TASE), Merhav Ceramic and Building Materials Center Ltd. (TASE), TAT Technologies Ltd. (NASDAQ and TASE), Orian C.M. Ltd. (TASE), Ophir Optronics Ltd., Overseas Commerce Ltd. (TASE), Scope Metals Group Ltd. (TASE) and Formula Systems Ltd. (NASDAQ and TASE). Prior to establishing FIMI, from 1993 until 1996, Mr. Davidi was the Founder and Chief Executive Officer of Tikvah Fund, a private Israeli investment fund. From 1992 until 1993 Mr. Davidi was the Chief Executive Officer of Zer Science Industries Ltd., a developer of diagnostics equipment for the healthcare industry. Mr. Davidi holds a B.Sc. degree in Industrial and Management Engineering from Tel Aviv University, Israel, and a M.B.A. degree from Bar Ilan University, Israel.

**Aylon (Lonny) Rafaeli** has served on our Board of Directors since May 2016. Mr. Rafaeli is a strategy and business development manager and consultant. From 2007 through 2012, Mr. Rafaeli was Director of Business Development at MST, a concentrated photo voltaic company. Prior to joining MST, Mr. Rafaeli was Managing Partner at E. Barak Associates, a strategic consulting company. Prior to this role, Mr. Rafaeli was Chief Executive Officer of Hasbro Israel (toys). Mr. Rafaeli is a member of the board of directors of the TALI Education Fund and a veteran association of an IDF elite unit. Mr. Rafaeli also served in the past as a director of Lenox Investment and Azimuth Technologies. Mr. Rafaeli holds an Executive M.B.A. degree in Strategic Management from The Hebrew University of Jerusalem, Israel.

**Meir Shamir** has served on our Board of Directors since May 2016. Mr. Shamir is the chief executive officer and a director of Mivtach Shamir holdings Ltd., a public company traded on the Tel Aviv Stock Exchange. Mivtach Shamir is a holding company active in spotting and initiating investments in technology, and in commercial real estate development, tangible investments and finance, in Israel and throughout Europe, the U.S. and India. Mr. Shamir served as a navigator in the Israeli Air Force. Mr. Shamir is an active philanthropist, established a fund to grant scholarships to under-privileged high school and college students, and since 2012 he has served as the Head of the Presidency of "Taglit" (Birthright Israel). Mr. Shamir holds a Business and Economics Administration degree and received an Honorary Doctorate from Bar Ilan University, Israel.

**Dafna Sharir** has served on our Board of Directors since May 2016. Ms. Sharir is an independent consultant in the areas of mergers and acquisitions and business development. Ms. Sharir served as Senior Vice President Investments of Ampal Corp. between 2002 and 2005. Before that she served as Director of Mergers and Acquisitions at Amdocs (until 2002). Between 1994 and 1996, Ms. Sharir worked as a tax attorney with Cravath, Swaine & Moore in New York. Ms. Sharir is a director of Ormat Technologies Inc. and served in the past as a director of Frutarom Industries Ltd. Ms. Sharir holds a B.A. degree in Economics and a LL.B degree, both from Tel Aviv University, Israel, LL.M. degree in Tax Law from New York University, and M.B.A. degree from INSEAD.

**Major General (ret.) Elyezer Shkedy**, Major General (ret.) Elyezer Shkedy, has served on our Board of Directors since June 2017. Mr. Shkedy is a business development manager and consultant. From January 2010 to March 2014, Mr. Shkedy was the Chief Executive Officer of El-Al Israel Airlines. Prior to joining El-Al, Mr. Shkedy served as Commander of the Israeli Air Force, from April 2004 until May 2008, after a long career as a fighter pilot and moving up through several command positions in the Israeli Air Force. Mr. Shkedy served as board member in Paz Oil Company, Ltd. (TASE) from October 2018 to March 2019. Mr. Shkedy serves as president and chairman of boards (pro bono) at several companies and organizations most of them non-profit. Mr. Shkedy holds an M.A. degree (with distinction) in Systems Management from NPS, the Naval Postgraduate School in Monterey, California, U.S. and a B.Sc. degree in Mathematics and Computer Science (with distinction) from Ben Gurion University in Israel.

**Adi Sfadia** has served as our Chief Financial Officer since November 2015. Prior to joining Gilat Mr. Sfadia served as CFO of Starhome Ltd., a wholly owned subsidiary of Fortissimo Capital, from January 2013. From 2008 to 2013, Mr. Sfadia served as CFO of Radvision Ltd. (previously traded on NASDAQ and TASE). From 2004 until 2008, Mr. Sfadia served as Radvision's Corporate Controller and Vice President of Finance. Prior to that, Mr. Sfadia served in several senior financial positions in Israeli companies, where he gained wide financial and managerial experience. Mr. Sfadia served five years in a public accounting position with Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. Mr. Sfadia holds a B.A. degree in Business Administration and an M.B.A. degree (magna cum laude) from The College of Management in Tel Aviv and Rishon Lezion, and is a Certified Public Accountant in Israel.

**Yuval Shani** serves as our Chief Operating Officer. Mr. Shani has over 20 years of executive experience in the fields of Global Operations, Supply Chain and Delivery Management. Prior to joining Gilat, Yuval served as Vice President Global Operations at Lumenis. Previously, he headed Global Operations and Manufacturing at Check Point. Mr. Shani has also worked at Microsemi as Vice President Operations and General Manager of the company's Israeli site. During his career, Mr. Shani has served in various management positions in high growth public companies such as Nice and 3Com, and has been the lead person responsible for the implementation of operational excellence practices. Mr. Shani holds an M.B.A. degree, specializing in Finance, and a B.A. degree (cum laude) in Economics & Management, both from Manchester University.

**Michal Aharonov** has served as our Vice President, Global Accounts and Telecom Services since October 2015 and was promoted in August 2017 to Vice President, Global Broadband Networks. Prior to joining Gilat, from 2013 until 2015, Ms. Aharonov served as Vice President, Head of Sales and Services at Essence Group. Prior thereto, from 2008 until 2012, Ms. Aharonov served as Vice President, Global Strategic Sourcing at Amdocs, after having served since 2000 in various positions at Amdocs. Ms. Aharonov holds a Master's degree in Public Administration focusing on financial information systems from Clark University (U.S). and a B.A. degree in Business Management and Finance from the College of Management – Academic Studies in Tel Aviv, Israel.

**Ron Levin** serves as our Vice President, Mobility and Global Accounts. He leads our activities in air, land and maritime mobility as well as our business with Satellite Operators on HTS/VHTS and NGSO constellations. Prior to joining Gilat, he headed Strategic Sales at ECI Telecom, a leading telecom equipment provider. Previously Mr. Levin headed Product Management at Jungo Software Technologies, a software company of home and small business gateways, which was later acquired by NDS and Cisco. Mr. Levin holds a M.Sc. degree in Management from the University of Tel Aviv and a B.Sc. degree in Computer Engineering from the Technion, Israel Institute of Technology, in Israel.

**Alit Shimelmits** serves as our Chief Technology and Product Officer since October 2019, and prior to that he has served as our Vice President, Research and Development for over six years, since May 2013. Prior to joining Gilat, from 2007 to 2013, Mr. Shimelmits served as Head of Transport Networks R&D for ECI Telecom Ltd. and prior to that as VP Research and Development for Axerra Networks Ltd. from 1999 to 2007. From 1991 to 1999, Mr. Shimelmits held various technical and managerial positions at ECI Telecom, having last served there as Associate Vice President R&D, Software Development, SDH Product Line. Mr. Shimelmits holds a M.Sc. degree in Applied Mathematics from Moscow Institute of Electronics and Mathematics and a B.Sc. degree in Computer Science from Moscow Institute of Chemical Engineering.

**Nirit Barnea** has served as our Vice President, Human Resources since June 2015. Prior to joining Gilat, from 2010 until 2014, Ms. Barnea served as the Global VP HR of 3M Attenti Ltd. (formerly DMATEK Ltd.). Prior thereto, Ms. Barnea held several senior management global HR positions for various software and telecommunications companies. Ms. Barnea holds an M.A. degree in Sociology from Tel Aviv University, Israel and a B.A. degree in Economics and Business Administration from Haifa University, Israel.



*Noam Rosenfeld* joined us in June 2019 and serves as our Vice President of Research & Development. Prior to joining Gilat, Mr. Rosenfeld headed the global R&D and the Cyber Security business unit at Verint Systems Inc., a leading cyber intelligence solutions provider. Mr. Rosenfeld previously served as the Cyber Defense Commander of the Israeli Defense Forces (IDF) & Head of the C4I and HLS military software house. Mr. Rosenfeld is a Colonel (Res.) in the IDF and holds B.Sc. degree in Computer Science from the Technion, Israel Institute of Technology.

## B. Compensation of Directors and Officers

The following table sets forth the aggregate compensation paid to or accrued on behalf of all of our directors and officers as a group for the year ended December 31, 2019:

	<b>Salaries, Fees, Directors' Fees, Commissions and Bonuses (1)</b>	<b>Amounts Set Aside for Pension, Retirement and Similar Benefits</b>
All directors and officers as a group (17 persons) (2)	\$ 4,325,250	\$ 417,918

(1) Includes bonuses and equity-based compensation accrued in 2019, but does not include business travel, professional and business association dues and expenses reimbursed to our directors and officers, and other benefits commonly reimbursed or paid by companies in Israel.

(2) Includes one Director who ceased to hold office during 2019.

In accordance with Israeli law requirements, the table below sets forth the compensation paid to our five most highly compensated senior office holders (as defined in the Companies Law) during or with respect to the year ended December 31, 2019, in accordance with the expenses recorded in our financial statements for the year ended December 31, 2019. We refer to the five individuals for whom disclosure is provided herein as our "Covered Executives."

For purposes of the table and the summary below, and in accordance with the above mentioned securities regulations, "compensation" includes base salary, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation.

*Summary Compensation Table*  
Information Regarding the Covered Executive in U.S. dollars (1)

<b>Name and Principal Position(2)</b>	<b>Base Salary</b>	<b>Benefits and Perquisites(3)</b>	<b>Variable Compensation(4)</b>	<b>Equity-Based Compensation(5)</b>	<b>Total</b>
Yona Ovadia, CEO	371,406	62,613	292,384	512,089	1,238,492
Adi Sfadia, CFO	236,475	52,700	111,845	88,536	489,556
Yuval Shani, Chief Operating Officer	241,445	84,935	80,403	62,676	469,458
Ron Levin, Vice President, Mobility and Global Accounts	208,328	45,437	128,847	80,912	463,524
Michal Aharonov, Vice President, Global Fixed Networks	236,475	59,604	79,865	81,962	457,906

- (1) All amounts reported in the table are in terms of cost to our company, as recorded in our financial statements.
- (2) All executive officers listed in the table were employed or provided services on a full-time basis during 2019. The compensation information in the table above includes compensation accrued for full year 2019.
- (3) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to each executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (e.g., life, disability, accident), convalescence pay, payments for social security and other benefits and perquisites consistent with our guidelines, but do not include business travel, relocation, professional and business association dues and expenses reimbursed to our directors and officers.
- (4) Amounts reported in this column refer to Variable Compensation such as commission, incentive and bonus payments as recorded in our financial statements for the year ended December 31, 2019.
- (5) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2019, with respect to equity-based compensation granted to the Covered Executive.

In accordance with the approval of our shareholders and in accordance with Israeli corporate law regarding compensation of external directors, each of our non-employee directors and external directors (all of our current directors except for our Chairman of the Board of Directors) is entitled to receive annual compensation payable quarterly of approximately NIS 93,690 (currently equivalent to approximately \$26,707), and an additional fee of approximately NIS 1,924 (currently equivalent to approximately \$548) for each board or committee meeting attended. In addition, Board members are compensated for telephone participation in board and committee meetings in an amount of 60% of what would be received for physical attendance and for written resolutions in an amount equal to 50% of same. All the above amounts are linked to changes in the Israeli consumer price index as of September 2014 and subject to changes in the amounts payable pursuant to Israeli law from time to time.

As of December 31, 2019, our directors and executive officers as a group, consisting of 16 persons, held options to purchase an aggregate of 2,093,897 ordinary shares, having exercise prices ranging from \$3.32 to \$9.51. Generally, the options granted to our directors, vest over a three-year period (except in the case of our Chairman, Dov Baharav, which vest over a four-year period) and the options granted to our executive officers vest over a four-year period. The options will expire between 2020 and 2025. All of such options were awarded under our stock option plans described in Item 6E - "Directors, Senior Management and Employees - Share Ownership - 2008 Share Incentive Plan".

*Chairman Services.* We and Mr. Baharav, through his controlled company, entered into an agreement dated May 20, 2014, or the Chairman Agreement, under which Mr. Baharav serves as Chairman of the Board of Directors of our company. Mr. Baharav also served as interim Chief Executive Officer from May 2015 until March 2016. For his services as Chairman, since May 2018, Mr. Baharav was entitled (directly or through his controlled company) to: (i) a monthly fee in the amount of NIS 22,000 (approximately \$6,271); (ii) payment of the cash value of various fringe benefits, in an aggregate amount of up to NIS 9,350 (approximately \$2,665) per month, which is equal to the employer's cost that would have been incurred by us for such benefits if the Chairman served in an employee status; and (iii) full time office space and secretarial assistance and reimbursement for out-of-pocket expenses incurred by him in connection with his service. In May 2014, Mr. Baharav was granted under our 2008 Option Plan options to purchase 250,000 of our ordinary shares, at an exercise price of \$4.61 per share, and in May 2015, Mr. Baharav was granted options to purchase 150,000 of our ordinary shares exercisable at a price of \$6.27 per share (following a subsequent adjustment for the 2019 cash dividend), all of which have fully vested. Our agreement with Mr. Baharav is for a three-year term ending in May 2021. We may terminate the agreement prior to the end of its term by providing two months paid notice and an additional two months' salary. An annual cash bonus plan of 6 base monthly salaries was approved for the years 2019 to 2021, upon achievement of a threshold of 80% of the company's target operating profit metric. Additionally, Mr. Baharav may be eligible for an over-achievement bonus of up to 3 base monthly salaries.

*CEO.* Mr. Ovadia has served as our Chief Executive Officer since March 31, 2016. Under his employment agreement, Mr. Ovadia is entitled to a monthly salary in the amount of NIS 110,000 (approximately \$31,357) and fringe benefits including social benefits, annual vacation and reimbursement of expenses. An annual cash bonus plan of 6 base monthly salaries was approved for the years 2019 to 2021, upon achievement of a threshold of 80% of the company's target operating profit metric. Additionally, Mr. Ovadia may be eligible for an over-achievement bonus of up to 3 base monthly salaries. Additionally, in 2016, Mr. Ovadia was granted options under our 2008 Option Plan, to purchase 400,000 of our ordinary shares at an exercise price of \$4.57 per share (following a subsequent adjustment for the 2019 cash dividend). The options were granted under our 2008 Option Plan and vest in 16 equal quarterly installments over a four-year period so long as Mr. Ovadia serves at our company. In 2018, Mr. Ovadia was granted options to purchase 100,000 ordinary shares at an exercise price of \$7.41 per share (following a subsequent adjustment for the 2019 cash dividend), and in June 2019, Mr. Ovadia was granted options to purchase 500,000 ordinary shares at an exercise price of \$9.43 per share. The options were granted under our 2008 Option Plan and will vest over a period of four years so long as Mr. Ovadia continues to serve at the Company. The options will remain exercisable for 12 months following cessation or termination of service (other than for cause). All options are subject to acceleration upon a change in control event. Accordingly, any options that remain unvested on the date of consummation of the Merger, shall become immediately exercisable on such date. The options will expire on the sixth anniversary of the date of the grant.

In accordance with the Israeli Companies Law, we adopted an Executive Compensation Policy for our executive officers and directors. The purpose of the policy is to describe our overall compensation strategy for our executive officers and directors and to provide guidelines for setting their compensation, as prescribed by the Israeli Companies Law. In accordance with the Israeli Companies Law, the Executive Compensation Policy must be reviewed and readopted at least once every three years. The policy was last amended in June 2019.

Approval by the Compensation Committee, the Board of Directors and our shareholders, in that order, is required for the adoption of the Executive Compensation Policy. The shareholders' approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholders' approval must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders other than our controlling shareholders or shareholders who have a personal interest in the adoption of the Executive Compensation Policy; or
- the total number of shares held by non-controlling shareholders and disinterested shareholders that voted against the adoption of the Executive Compensation Policy does not exceed 2% of the aggregate voting rights of our company.

In the event that the Executive Compensation Policy is not approved by the shareholders, the compensation committee and the board of directors may still approve the policy, if the compensation committee and the board of directors determine, based on specified reasons and following further discussion of the matter, that the compensation policy is in the best interests of the company.

Under the Israeli Companies Law, the compensation arrangements for "office holders" (other than the Chief Executive Officer) who are not directors require the approval of the Compensation Committee and the Board of Directors; provided, however, that if the compensation arrangement is not in compliance with our Executive Compensation Policy, the arrangement may only be approved by the Compensation Committee and the Board of Directors for special reasons to be noted, and the compensation arrangement shall also require a special shareholder approval. If the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an "office holder" who is not a director and is in compliance with our Executive Compensation Policy, the approval of the Compensation Committee is sufficient. An "office holder" is defined under Israeli Companies Law as a general manager, chief executive officer, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, a director and a manager directly subordinate to the chief executive officer.

Arrangements regarding the compensation of directors require the approval of the Compensation Committee, the Board and our shareholders, in that order.

Arrangements regarding the compensation of the Chief Executive Officer require the approval of the Compensation Committee, the Board and our shareholders by special majority, in that order. In certain limited cases, the compensation of a new Chief Executive Officer who is not a director may be approved without approval of our shareholders.

### **C. Board Practices**

#### **Election of Directors**

Our Articles of Association provide that our Board of Directors shall consist of not less than five and not more than nine directors as shall be determined from time to time by a majority vote at the general meeting of our shareholders. Our shareholders resolved to set the size of our Board of Directors at eight members, including two external directors.

Pursuant to our Articles of Association, each beneficial owner of 14% or more of our issued and outstanding ordinary shares is entitled to appoint, at each annual general meeting of our shareholders, one member to our Board of Directors, provided that a total of not more than four directors are so appointed. In the event that more than four qualifying beneficial owners notify us that they desire to appoint a member to our board of directors, only the four shareholders beneficially owning the greatest number of shares shall each be entitled to appoint a member to our Board of Directors. So long as our ordinary shares are listed for trading on NASDAQ, we may require that any such appointed director qualify as an "independent director" as provided in the NASDAQ rules then in effect. Our Board of Directors has the right to remove any such appointed director when the beneficial ownership of the shareholder who appointed such director falls below 14% of our issued and outstanding ordinary shares.

Our Articles of Association provide that a majority of the voting power at the annual general meeting of our shareholders will elect the remaining members of the board of directors, including external directors as required under the Companies Law. At any annual general meeting at which directors are appointed pursuant to the preceding paragraph, the calculation of the vote of any beneficial owner who appointed a director pursuant to the preceding paragraph shall not take into consideration, for the purpose of electing the remaining directors, ordinary shares constituting 14% of our issued and outstanding ordinary shares held by such appointing beneficial owner.

Each of our directors (except for external directors) serve, subject to early resignation or vacation of office in certain circumstances as set forth in our Articles of Association, until the adjournment of the next annual general meeting of our shareholders following the general meeting in which such director was elected. The holders of a majority of the voting power represented at a general meeting of our shareholders in person or by proxy will be entitled to (i) remove any director(s), other than external directors and directors appointed by beneficial holders of 14% or more of our issued and outstanding ordinary shares as set forth above, (ii) elect directors instead of directors so removed, or (iii) fill any vacancy, however created, in the board of directors. Our board of directors may also appoint additional directors, whether to fill a vacancy or in order to bring the total number of serving directors to the number determined by our shareholders. Such directors will serve until the next general meeting of our shareholders following such appointment.

Currently, no shareholder beneficially holding 14% or more of our issued and outstanding ordinary shares has exercised its right to appoint a director.

## External Directors and Independent Directors

**External Directors.** Under the Israeli Companies Law, public companies are required to elect at least two external directors who must meet specified standards of independence. External directors may not have had during the two years preceding their appointment, directly or indirectly through a relative, partner, employer or controlled entity, any affiliation with (i) the company, (ii) those of its shareholders who are controlling shareholders at the time of appointment and/or their relatives, or (iii) any entity controlled by the company or by its controlling shareholders.

The term “affiliation” includes an employment relationship, a business or professional relationship maintained on a regular basis, control and services as an office holder. The term “controlling shareholder” is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder’s position on the board of directors or any other position with the company. The definition also includes shareholders that hold 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights in the company.

In addition, an individual may not be appointed as an external director in a company that does not have a controlling shareholder, in the event that he has affiliation, at the time of his appointment, to the chairman, chief executive officer, a 5% shareholder or the chief financial officer. An individual may not be appointed as an external director if his relative, partner, employer, supervisor, or an entity he controls, has other than negligible business or professional relations with any of the persons with which the external director himself may not be affiliated.

No person can serve as an external director if the person’s other positions or business creates or may create conflicts of interest with the person’s responsibilities as an external director. Until the lapse of two years from termination of office, a company may not engage an external director as an employee or otherwise. If, at the time an external director is to be appointed, all current members of the board of directors, who are not controlling shareholders of the company or their relatives, are of the same gender, then at least one external director appointed must be of the other gender.

The Israeli Companies Law further requires that external directors have either financial and accounting expertise or professional competence, as determined by the company’s board of directors. Under relevant regulations, a director having financial and accounting expertise is a person who, due to his or her education, experience and talents, is highly skilled in respect of, and understands, business and accounting matters and financial reports, in a manner that enables him or her to have an in-depth understanding of the company’s financial information and to stimulate discussion in respect of the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who meets any of the following criteria: (i) has an academic degree in either economics, business administration, accounting, law or public administration; (ii) has a different academic degree or has completed higher education in an area relevant to the company’s business or in an area relevant to his or her position; or (iii) has at least five years’ experience in any of the following, or has a total of five years’ experience in at least two of the following: (a) a senior position in the business management of a corporation with a substantial scope of business, (b) a senior public position or a senior position in public service, or (c) a senior position in the main field of the company’s business.

At least one of the external directors is required to qualify as a financial and accounting expert, as determined by the board of directors. Our Board of Directors has determined that both Ms. Dafna Cohen and Mr. Elyezer Shkedy have “accounting and financial expertise” as defined by the Israeli Companies law.

External directors serve for an initial three-year term. The initial three-year term of service can be extended, at the election of a company subject to certain conditions, by two additional three-year terms. External directors will be elected by a majority vote at a shareholders’ meeting, provided that either the majority of shares voted at the meeting, including at least half of the shares held by non-controlling shareholders voted at the meeting, vote in favor; or the total number of shares held by non-controlling shareholders voted against does not exceed two percent of the aggregate voting rights in the company.

The term of office of external directors of Israeli companies traded on certain foreign stock exchanges, including the NASDAQ Global Select Market, may be further extended, indefinitely, in increments of additional three-year terms, in each case provided that, in addition to reelection in such manner described above, (i) the audit committee and subsequently the board of directors of the Company confirm that, in light of the external director’s expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to the Company, and (ii) prior to the approval of the reelection of the external director, the Company’s shareholders have been informed of the term previously served by such nominee and of the reasons why the board of directors and audit committee recommended the extension of such nominee’s term.

External directors can be removed from office only by the court or by the same special majority of shareholders that can elect them, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their fiduciary duty to the company. The court may additionally remove external directors from office if they were convicted of certain offenses by a non-Israeli court or are permanently unable to fulfill their position.

An external director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

The Companies Law requires external directors to submit to the company, prior to the date of the notice of the general meeting convened to elect the external directors, a declaration stating their compliance with the requirements imposed by Companies Law for the office of external director.

Our Board of Directors currently has two external directors under Israeli law: (i) Ms. Dafna Cohen, who was reelected to serve as an external director in January 2018; and (ii) Mr. Elyezer Shkedy who was elected to serve as an external director in June 2017.

**Independent Directors.** In general, NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors, within the meaning of NASDAQ rules. Our Board of Directors has determined that seven out of the eight members of our Board of Directors are independent directors under NASDAQ requirements.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director that served as a board member less than nine years and the audit committee has approved that he or she meets the independence requirements of an external director. A majority of the members serving on the audit committee and the compensation committee must be independent under the Israeli Companies Law.

### **Chairman of the Board**

Under the Companies Law, the Chief Executive Officer (referred to as a “general manager” under the Companies Law) or a relative of the Chief Executive may not serve as the chairman of the board of directors, and the chairman or a relative of the chairman may not be vested with authorities of the Chief Executive Officer without shareholder approval consisting of a majority vote of the shares present and voting at a shareholders meeting, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such appointment, present and voting at such meeting; or
- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such appointment voting against such appointment does not exceed two percent of the aggregate voting rights in the company.

In addition, a person subordinated, directly or indirectly, to the Chief Executive Officer may not serve as the chairman of the board of directors; the chairman of the board may not be vested with authorities that are granted to those subordinated to the Chief Executive Officer; and the chairman of the board may not serve in any other position in the company or a controlled company, but he may serve as a director or chairman of a subsidiary.

## Committees of the Board of Directors

Our Articles of Association provide that the Board of Directors may delegate its powers to committees of the Board of Directors as it deems appropriate, to the extent permitted by Israeli Companies Law. All of the external directors must serve on our audit committee and compensation committee (including one external director serving as the chair of the audit committee and compensation committee), and at least one external director must serve on each other committee that may be established by our Board of Directors.

**Audit Committee.** Under the Israeli Companies Law, publicly traded companies must establish an audit committee. The audit committee must consist of at least three members, and must include all of the company's external directors, including one external director serving as chair of the audit committee. A majority of an audit committee must be comprised of "independent directors" (as such term is defined in the Companies Law). The chairman of the board of directors, directors employed by, or that provide services on a regular basis to, the company or to a controlling shareholder or a company controlled by a controlling shareholder (or whose main livelihood depends on a controlling shareholder), any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting in which approval was granted.

In addition, the NASDAQ Marketplace Rules require us to establish an audit committee comprised of at least three members, all of whom must be independent directors, each of whom is financially literate and satisfies the respective "independence" requirements of the Securities and Exchange Commission and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our Audit Committee oversees (in addition to the Board) the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent auditors' qualifications, independence, compensation, and performance, and the performance of our internal audit function. Our Audit Committee is also required to determine whether there are deficiencies in the business management of our company and in such event propose to our Board of Directors the means of correcting such deficiencies, determine whether certain related party actions and transactions are "material" or "extraordinary" in connection with their approval procedures, approve related-party transactions as required by Israeli law and establish whistle blower procedures (including in respect of the protections afforded to whistle blowers). The Audit Committee may consult from time to time with our independent auditors and internal auditor with respect to matters involving financial reporting and internal accounting controls.

Our Audit Committee consists of Ms. Cohen, Ms. Sharir, Mr. Shkedy and Mr. Rafaeli. All of the members of our Audit Committee satisfy the respective "independence" requirements of the Securities and Exchange Commission and NASDAQ, and the composition of our Audit Committee satisfies the audit committee composition requirements of the Israeli Companies Law. Our Board of Directors has determined that both Ms. Cohen and Mr. Shkedy qualify as Audit Committee financial experts, as required by the rules of the Securities and Exchange Commission and NASDAQ.

**Compensation Committee.** Under the Israeli Companies Law, publicly traded companies must establish a compensation committee, including an external director serving as chair of the compensation committee. The compensation committee must consist of at least three members, and must include all of the company's external directors. The additional members of the compensation committee must satisfy the criteria for remuneration applicable to the external directors.

Our Compensation Committee consists of Ms. Cohen, Mr. Shkedy and Mr. Rafaeli. All of the members of our Compensation Committee are independent directors, within the meaning of NASDAQ rules and the composition of our Compensation Committee complies with the compensation committee composition requirements of the Israeli Companies Law.

Under Israeli Companies Law, the compensation committee is responsible for: (i) making recommendations to the Board of Directors with respect to the approval of the Executive Compensation Policy; (ii) providing the Board of Directors with recommendations with respect to any amendments or updates to the Executive Compensation Policy and periodically reviewing the implementation thereof; (iii) reviewing and approving arrangements with respect to the terms of office and employment of office holders; and (iv) determining whether or not to exempt a transaction with a candidate for Chief Executive Officer from shareholder approval.

In addition, our Compensation Committee offers recommendations to the Board of Directors regarding equity compensation issues (with the Board also approving compensation of our executive officers), and administers our option plans, subject to general guidelines determined by our Board of Directors from time to time. The Compensation Committee also makes recommendations to our Board of Directors in connection with the terms of employment of our Chief Executive Officer and all other executive officers.

### **Israeli Regulations**

In March 2016, the Israeli Companies Law Regulations were amended to reduce certain duplicative regulatory burdens to which Israeli companies publicly-traded on NASDAQ are subject. Generally, pursuant to the new regulations, an Israeli company traded on NASDAQ that does not have a “controlling shareholder” (as defined in the Israeli Companies Law) will be able to elect not to appoint External Directors to its Board of Directors and not to comply with the Audit Committee and Compensation Committee composition and chairman requirements of the Israeli Companies Law (as described above); provided, the company complies with the applicable NASDAQ independent director requirements and the NASDAQ Audit Committee and Compensation Committee composition requirements.

Since our largest shareholder, the FIMI funds, are deemed to be a “controlling shareholder” under the Israeli Companies Law, at the date of this Annual Report on Form 20-F we are not eligible to benefit from the relief provided by these new amended Israeli regulations.

### **Internal Audit**

The Israeli Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. The internal auditor must meet certain statutory requirements of independence. The role of the internal auditor is to examine, among other things, the compliance of the company’s conduct with applicable law and orderly business practice. Our internal auditor is Mr. Doron Cohen, CPA of Fahn Kanne, Grant Thornton.

### **Directors’ Service Contracts**

There are no arrangements or understandings with any of our directors providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries, other than with our Chairman of the Board, Mr. Dov Baharav. Mr. Baharav’s agreement with us which was extended in May 2018 for an additional three years, stipulates that we may terminate his agreement prior to the end of its three-year term by providing Mr. Baharav with two months’ notice and an additional two months’ salary.



## **Approval of Related Party Transactions under Israeli Law**

### *Fiduciary Duties of Office Holders*

The Israeli Companies Law codifies the fiduciary duties that “office holders,” including directors and executive officers, owe to a company. An office holder’s fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain: (i) information regarding the business feasibility of a given action brought for his approval or performed by him by virtue of his position; and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty requires that an office holder act in good faith and for the benefit of the company, including: (i) avoiding any conflict of interest between the office holder’s position in the company and any other position he holds or his personal affairs; (ii) avoiding any competition with the company’s business; (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others; and (iv) disclosing to the company any information or documents relating to the company’s affairs that the office holder has received by virtue of his position as an office holder.

### *Disclosure of Personal Interests of an Office Holder; Approval of Transactions with Office Holders*

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their possession, in connection with any existing or proposed transaction relating to our company. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company’s profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder’s spouse, siblings, parents, grandparents, descendants, spouse’s descendants and the spouses of any of the foregoing (“relatives”), or by any corporation in which the office holder or a relative is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors other than the chief executive officer require approval by both the compensation committee and the board of directors. The terms of office and employment of the chief executive officer and the directors require the approval of the compensation committee, the board of directors and shareholders. See also “Item 6.C—Board Practices; Compensation of Office Holders”.

Some other transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company’s articles of association, however, a transaction that is not for the benefit of the company may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors, and under certain circumstances shareholder approval may be required as well. Generally, in all matters in which a director has a personal interest he or she shall not be permitted to vote on the matter or be present at the meeting in which the matter is considered, except in case of a transaction that is not extraordinary or for the purpose of presenting the proposed transaction, if the chairman of the audit committee or board of directors (as applicable) determines it necessary. Should a majority of the audit committee or of the board of directors have a personal interest in the matter, then: (a) all of the directors are permitted to vote on the matter and attend the meeting at which the matter is considered; and (b) the matter requires approval of the shareholders at a general meeting.

### *Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders*

The disclosure requirements that apply to an office holder also apply to a transaction in which a controlling shareholder of the company has a personal interest. The Israeli Companies Law provides that extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and agreements relating to employment and compensation of a controlling shareholder, generally require the approval of the audit committee (or with respect to terms of office and employment, the compensation committee), the board of directors and the shareholders. Shareholders’ approval shall either include at least half of the shares held by disinterested shareholders participating in the vote, or, alternatively, the total shareholdings of disinterested shareholders voting against the transaction must not represent more than two percent of the voting rights. Agreements relating to engagement or provision of services for a period exceeding three years, must generally be approved once every three years.

For these purposes, a shareholder that holds 25% or more of the voting rights in a company is considered a controlling shareholder if no other shareholder holds more than 50% of the voting rights.

Under the Companies Regulations (Relief regarding Related Party Transactions), 5760-2000, promulgated under the Israeli Companies Law, as amended, certain extraordinary transactions between a public company and its controlling shareholder(s) do not require shareholders' approval. In addition, under such regulations, directors' compensation and employment arrangements in a public company do not require the approval of the shareholders if both the compensation committee and the board of directors agree that such arrangements are solely for the benefit of the company or if the directors' compensation does not exceed the maximum amount of compensation for external directors determined by applicable regulations. Also, employment and compensation arrangements for an office holder that is a controlling shareholder of a public company do not require shareholders' approval if certain criteria are met. The foregoing exemptions from shareholders' approval will not apply if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights, objects to the use of these exemptions, provided that such objection is submitted to the company in writing not later than fourteen days from the date of the filing of a report regarding the adoption of such resolution by the company. If such objection is duly and timely submitted, then the transaction or compensation arrangement of the directors will require shareholders' approval as detailed above.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition a person would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition a person would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if (i) in general, the acquisition was made in a private placement that received shareholders' approval, (ii) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (iii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, a person will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a full tender offer for all of the outstanding shares or a class of shares. If less than 5% of the outstanding shares are not tendered in such full tender offer, all of the outstanding shares or class of shares will be transferred to the acquirer. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer. However, the acquirer may stipulate in the tender offer that any shareholder tendering his shares will not be entitled to appraisal rights. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

#### **Exemption, Indemnification and Insurance of Directors and Officers**

Under the Israeli Companies Law, a company may not exempt an office holder from liability with respect to a breach of his fiduciary duty, but may exempt in advance an office holder from his liability to the company, in whole or in part, with respect to a breach of his duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care in connection with distributions (as defined in the Companies Law) or for certain breaches listed below.

Pursuant to the Companies Law, a company may indemnify an office holder against: (i) a financial obligation imposed on him in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court; (ii) reasonable litigation expenses, including attorney's fees, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and (iii) expenses, including reasonable litigation expenses and legal fees, incurred by an office holder as a result of a proceeding instituted against such office holder in relation to (A) infringements that may impose financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law, 1968, or the Securities Law, or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law, or (C) infringements pursuant to the provisions of Chapter I'1 under the Securities Law.

The indemnification of an office holder must be expressly permitted in the articles of association, under which the company may (i) undertake in advance to indemnify its office holders with respect to certain types of events that can be foreseen at the time of giving such undertaking and up to an amount determined by the board of directors to be reasonable under the circumstances, or (ii) provide indemnification retroactively in amounts deemed to be reasonable by the board of directors.

A company may also procure insurance for an office holder's liability in consequence of an act performed in the scope of his office, in the following cases: (i) a breach of the duty of care of such office holder, (ii) a breach of fiduciary duty, only if the office holder acted in good faith and had reasonable grounds to believe that such act would not be detrimental to the company, or (iii) a monetary obligation imposed on the office holder for the benefit of another person. Subject to the provisions of the Companies Law and the Securities Law, a company may also enter into a contract for procurement of insurance for an office holder for (a) expenses, including reasonable litigation expenses and legal fees, incurred by the office holder as a result of a proceeding instituted against such office holder in relation to (A) infringements that may impose financial sanction pursuant to the provisions of Chapter H'3 under the Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Securities Law and (b) payments made to the injured parties of such infringement under Section 52ND(a)(1)(a) of the Securities Law.

A company may not indemnify an office holder against, nor enter into an insurance contract which would provide coverage for, any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his fiduciary duty unless the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if such breach was performed intentionally or recklessly;
- any act or omission carried out with the intent to derive an illegal personal gain; or
- any fine or penalty levied against the office holder as a result of a criminal offense.

Under the Companies Law, exemption and indemnification of, and procurement of insurance coverage for, a company's office holders, must be approved under the same terms that apply to approval of the terms of office and employment of the office holders. For more information, see Item 6.B - "Directors, Senior Management and Employees – Compensation of Directors and Officers".

Our Articles of Association allow us to exempt any office holder to the maximum extent permitted by law, before or after the occurrence giving rise to such exemption. Our Articles of Association also provide that we may indemnify any office holder, to the maximum extent permitted by law, against any liabilities he or she may incur in such capacity, limited with respect (i) to the categories of events that can be foreseen in advance by our Board of Directors when authorizing such undertaking and (ii) to the amount of such indemnification as determined retroactively by our Board of Directors to be reasonable in the particular circumstances. Similarly, we may also agree to indemnify an office holder for past occurrences, whether or not we are obligated under any agreement to provide such indemnification. Our Articles of Association also allow us to procure insurance covering any past or present officer holder against any liability which he or she may incur in such capacity, to the maximum extent permitted by law. Such insurance may also cover the company for indemnifying such office holder. We have obtained directors' and officers' liability insurance covering our officers and directors and those of our subsidiaries for certain claims. In addition, we have provided our directors and officers with letters providing them with exemption and indemnification to the fullest extent permitted under Israeli law (except that we are not required to exempt our directors and officers from liability for damages caused as a result of a breach of the office holder's duty of care in transactions in which our controlling shareholder or an office holder has a personal interest).

## **Israeli Securities Authority Administrative Enforcement**

Under the Israeli Securities Law, the Israeli Securities Authority, or ISA, may take certain administrative enforcement actions against a company or a person, including a director, officer or shareholder of a company, if carrying out certain transgressions designated in the Securities Law.

The Securities Law also requires that the chief executive officer of a company supervise and take all reasonable measures to prevent the company or any of its employees from breaching certain provisions of the Israeli Securities Law. The chief executive officer is presumed to have fulfilled such supervisory duty if the company adopts internal enforcement procedures designed to prevent such breaches, appoints a representative to supervise the implementation of such procedures and takes measures to correct the breach and prevent its reoccurrence. The ISA is authorized to impose fines on any person or company breaching certain provisions designated under the Companies Law.

We have adopted several codes and policies, which contain various corporate governance principles, including a Code of Ethics (which includes Whistle Blower procedures), Insider Trading Policy and a Policy Prohibiting Bribery and Corruption, all of which are available on our website at [www.gilat.com](http://www.gilat.com). See “Item 16B – Code of Ethics”.

### **D. Employees**

As of December 31, 2019, we had 864 full-time employees, including 260 employees in engineering, research and development, 348 employees in manufacturing, operations and technical support, 71 employees in marketing and sales, 113 employees in administration and finance and 72 in other departments. Of these employees, 307 were based in our facilities in Israel, 131 were employed in the U.S., 219 were employed in Latin America and 207 were employed in Asia, the Far East and other parts of the world. These numbers reflect a decrease in headcount since December 31, 2018 of 148 employees worldwide, resulting mainly from the decrease in headcount in Colombia due to the conclusion of our performance of our project for the Ministry of ITC. As part of our cost-cutting measures in response to the negative impact of the Coronavirus, we have implemented a decrease in headcount.

As of December 31, 2018, we had 1,012 full-time employees, including 268 employees in engineering, research and development, 441 employees in manufacturing, operations and technical support, 77 employees in marketing and sales, 120 employees in administration and finance and 106 in other departments. Of these employees, 323 were based in our facilities in Israel, 122 were employed in the U.S., 337 were employed in Latin America and 229 were employed in Asia, the Far East and other parts of the world. These numbers reflect a decrease in headcount since December 31, 2017 of 29 employees worldwide.

As of December 31, 2017, we had 1,041 full-time employees, including 251 employees in engineering, research and development, 485 employees in manufacturing, operations and technical support, 83 employees in marketing and sales, 122 employees in administration and finance and 100 in other departments. Of these employees, 313 were based in our facilities in Israel, 116 were employed in the U.S., 399 were employed in Latin America and 213 were employed in Asia, the Far East and other parts of the world. These numbers reflect a decrease in headcount since December 31, 2016 of 27 employees worldwide.

We also utilize temporary employees, as necessary, to supplement our manufacturing and other capabilities.

We provide our employees around the world with fringe benefits in accordance with applicable law and we are subject to various labor laws and labor practices around the world. Recent rulings by Israel's National Labor Court and changes to Israel's largest labor union's bylaws substantially facilitate the organization of a labor union in companies in Israel. We and our employees are not parties to any collective bargaining agreements and our employees are not represented by any labor union. However, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Manufacturers' Association of Israel) are applicable to all Israeli employees by order of the Israeli Minister of Economy and Industry. These provisions principally concern the length of the work day and the work week, minimum wages for workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. These provisions are modified from time to time.

Israeli law generally requires severance pay upon termination, resignation in certain instances or death of an employee. Our ongoing severance obligations are partially funded by making monthly payments to approved severance funds or insurance policies, with the remainder accrued as a long-term liability in our consolidated financial statements. In addition, Israeli employees and employers are required to pay specified amounts to the National Insurance Institute, which is, in essence, parallel to the U.S. Social Security Administration. Our permanent employees are generally covered by life and pension insurance policies providing customary benefits to employees, including retirement and severance benefits.

Our U.S. subsidiaries sponsor a retirement plan for eligible employees. Their 401(k) Plan is a "safe harbor" 401(k) Plan and allows eligible employees to defer compensation up to the maximum amount allowed under the current Internal Revenue Code. As a "safe harbor" plan, our U.S. subsidiary must make a mandatory contribution to the 401(k) Plan to satisfy certain nondiscrimination requirements under the Internal Revenue Code. This mandatory contribution is made to all eligible employees.

## **E. Share Ownership**

### **Beneficial Ownership of Executive Officers and Directors**

Except for Mr. Dov Baharav, none of our directors and executive officers beneficially owns more than 1% of our outstanding shares. In addition, Mr. Yona Ovadia, our Chief Executive Officer, has options to purchase 1,000,000 of our ordinary shares, with a weighted average exercise price of \$7.28 per share, of which 425,000 options are exercisable on the date of this Annual Report on Form 20-F and 575,000 options will become exercisable upon the completion of the Merger. Mr. Baharav beneficially owns approximately 1.9% of our ordinary shares, consisting of 1,068,497 ordinary shares. Additionally, Mr. Ishay Davidi shares voting and dispositive power with Shira and Ishay Davidi Management Ltd. with respect to the shares held by the FIMI Funds, and he controls Shira and Ishay Davidi Management Ltd. as described in Item 7A – "Major Shareholders and Related Party Transactions – Major Shareholders".

As of December 31, 2019, our directors and executive officers as a group (16 persons) held options to purchase 2,093,898 of our ordinary shares under our share options plans (described below), exercisable at a weighted average exercise price of \$6.69 per share with expiration dates ranging from December 2020 to October 2025.

### **2008 Share Incentive Plan**

In October 2008, our Board of Directors adopted the 2008 Share Incentive Plan, or the 2008 Plan, for issuance of options, restricted share units, or RSUs, and other forms of equity based awards to our directors, officers, consultants and employees. The term of the 2008 Plan had been extended by an additional ten-year period, commencing in October 2015. Our Board of Directors also adopted a sub-plan to enable qualified optionees certain tax benefits under the Israeli Income Tax Ordinance. Following increases approved by our Board of Directors, the total number of ordinary shares reserved for issuance of options under the 2008 Plan is 7.02 million shares. As of December 31, 2019, we have granted options to purchase 5,592,926 ordinary shares under the 2008 Plan (excluding options that were granted and cancelled), pursuant to which 2,423,947 ordinary shares have been issued as of December 31, 2019. As of December 31, 2019, we had outstanding options to purchase 3,168,980 ordinary shares, with exercise prices ranging from \$3.32 to \$9.51 and such options expire at various times from June 2020 to November 2025. As of December 31, 2019, we have granted 1,344,686 RSUs under the 2008 Plan (excluding RSUs that were granted and canceled), pursuant to which, 1,344,686 ordinary shares have been issued as of December 31, 2019. As of December 31, 2019, we had no outstanding RSUs.

In February 2019, the 2008 Plan was amended to include a dividend adjustment, whereby unless otherwise is resolved by the Board of Directors, the exercise price of each outstanding share option (whether vested or not) (as such term is defined in the 2008 Plan), shall be reduced by an amount equal to the cash dividend per share distributed on the applicable distribution date. For example, following the dividend distribution in April 2019, the exercise price of each outstanding share option was reduced by \$0.45. In addition, the amendment stipulates that the administrating committee may apply a “net exercise” payment method, whereby a certain number of ordinary shares to which a participant is entitled, may be withheld according to the formula set forth in the amendment.

All options we granted on or before March 23, 2017 that are unvested and outstanding upon a change in control, such as the Merger, shall become fully vested upon a change of control event. In addition, options granted to several management members after March 23, 2017 that are unvested and outstanding upon a change in control, such as the Merger, shall also become fully vested upon a change of control event. As of December 31, 2019, our employees held unvested options to purchase 1,341,708 Ordinary Shares that are subject to vesting acceleration upon a change in control, such as the Merger, including unvested options to purchase 1,118,333 Ordinary Shares held by our directors and executive officers as a group (16 persons).

The term of the options granted under the 2008 Plan is six years, subject to the terms of the specific plan and grant letter.

The RSUs and options granted under the 2008 Plan to our executives generally vest quarterly or annually over a four-year period. The options granted under the 2008 Plan to our directors generally vest ratably each quarter over a three-year period except in the case of the grant to our Chairman of the Board of Directors, in which the options vest ratably each quarter over a four-year period.

The purpose of the 2008 Plan is to enable us to attract and retain qualified persons as employees, officers, directors, consultants and advisors and to motivate such persons by providing them with an equity participation in our company. The Section 102 Plans are designed to afford qualified optionees certain tax benefits under the Israeli Income Tax Ordinance.

The 2008 Plan is administered by the Compensation Committee appointed by our Board of Directors. The Compensation Committee recommends to our Board, or in case of office holders, approves, the persons entitled to receive options and RSUs, the terms and conditions on which options or rights to purchase are granted and the number of shares subject thereto. The grants of options and RSUs are approved by our Board.

Options issued pursuant to the 2008 Plan may be granted to our and our subsidiaries’ directors, officers, consultants and employees. The exercise price of incentive share options issued pursuant to the Plans must be not less than the closing price of our ordinary shares on NASDAQ on the date of grant of the options or, if the closing price is not quoted on such date, on the preceding trading day.

Options are exercisable and restrictions on disposition of shares lapse according to the terms of the applicable plan and of the individual agreements under which such options were granted or awards issued.

## ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary shares, as of March 18, 2020, by each person who we believe beneficially owns 5% or more of our outstanding ordinary shares and all of our directors and executive officers as a group.

Beneficial ownership of shares is determined under rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. The percentage ownership of each such person is based on the number of ordinary Shares outstanding as of March 18, 2020 and includes the number of ordinary shares underlying options and RSUs that are exercisable within sixty (60) days from the date of March 18, 2020. Ordinary Shares subject to these options and RSUs are deemed to be outstanding for the purpose of computing the ownership percentage of the person holding these options and RSUs, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person. The information in the table below is based on 55,493,258 Ordinary Shares outstanding as of March 18, 2020. Each of our outstanding ordinary shares has identical rights in all respects. The information in the table below with respect to the beneficial ownership of shareholders is based on the public filings of such shareholders with the SEC through March 18, 2020 and information provided to us by such shareholders.

<u>Name</u>	<u>Number of Shares</u>	<u>Percent</u>
FIMI Funds (1).	18,801,865	33.9%
Mivtach Shamir Holdings Ltd. (2)	5,375,647	9.7%
Renaissance Technologies LLC., and Renaissance Technologies Holdings Corporation (3)	2,957,417	5.3%
All directors and executive officers as a group (16 persons) (4)	2,145,728	3.8%

- (1) Based on a Schedule 13D/A filed on January 30, 2020 with the SEC and information provided to us by such shareholder, FIMI Opportunity IV, L.P., FIMI Israel Opportunity IV, Limited Partnership (the “FIMI IV Funds”), FIMI Opportunity V, L.P., FIMI Israel Opportunity Five, Limited Partnership (the “FIMI V Funds” and together with the FIMI IV Funds, the “FIMI Funds”), FIMI IV 2007 Ltd., FIMI FIVE 2012 Ltd., Shira and Ishay Davidi Management Ltd. and Mr. Ishay Davidi share voting and dispositive power with respect to the 18,801,865 Gilat Shares held by the FIMI Funds. FIMI IV 2007 Ltd. is the managing general partner of the FIMI IV Funds. FIMI FIVE 2012 Ltd. is the managing general partner of the FIMI V Funds. Shira and Ishay Davidi Management Ltd. controls FIMI IV 2007 Ltd. and FIMI FIVE 2012 Ltd. Mr. Ishay Davidi controls Shira and Ishay Davidi Management Ltd. and is the Chief Executive Officer of all the entities listed above. The principal business address of each of the above entities and of Mr. Davidi is c/o FIMI IV 2007 Ltd., Alon Building 2, 94 Yigal Alon St., Tel-Aviv 6789139, Israel.
- (2) Based on a Schedule 13G/A filed on April 7, 2016 with the SEC by Mivtach Shamir Holdings Ltd. and information provided to us by such shareholder. The principal office of Mivtach Shamir Holdings Ltd. is 27 Habarzel Street, Tel-Aviv.
- (3) Based on Schedule 13G/A filed on February 13, 2020, with the SEC by Renaissance Technologies LLC., or RTC and Renaissance Technologies Holdings Corporation. The principal office of Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation is 800 Third Avenue, New York, New York 10022.
- (4) As of March 18, 2020, all directors and executive officers as a group (16 persons) held 1,077,231 options that are vested or that vest within 60 days of March 18, 2020.

### Significant Changes in the Ownership of Major Shareholders

As of March 13, 2018, our major shareholders were FIMI Funds, beneficially owning 18,901,865 ordinary shares (approximately 34.4% ownership), Mivtach Shamir Holdings Ltd. beneficially owning 5,375,647 ordinary shares (approximately 9.8% ownership), Itshak Sharon (Tshuva), beneficially owning 4,479,411 ordinary shares (approximately 8.2% ownership), and Renaissance Technologies LLC. and Renaissance Technologies Holdings Corporation, together beneficially owning 2,814,930 ordinary shares (approximately 5.1% ownership).

As of March 13, 2019, our major shareholders were FIMI Funds, beneficially owning 18,801,865 ordinary shares (approximately 34% ownership), Mivtach Shamir Holdings Ltd. beneficially owning 5,375,647 ordinary shares (approximately 9.7% ownership), Itshak Sharon (Tshuva), beneficially owning 3,988,624 ordinary shares (approximately 7.2% ownership), and Renaissance Technologies LLC. and Renaissance Technologies Holdings Corporation, together beneficially owning 2,938,405 ordinary shares (approximately 5.3% ownership).

As of March 18, 2020, our major shareholders were FIMI Funds, beneficially owning 18,801,865 ordinary shares (approximately 33.9% ownership), Mivtach Shamir Holdings Ltd. beneficially owning 5,375,647 ordinary shares (approximately 9.7% ownership), and Renaissance Technologies LLC. and Renaissance Technologies Holdings Corporation, together beneficially owning 2,957,417 ordinary shares (approximately 5.3% ownership).

### **Major Shareholders Voting Rights**

The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares, except to the extent that they hold more than 14% and as such, they will have a right to appoint a director, subject to certain conditions set forth in our Articles of Association.

### **Record Holders**

Based on a review of the information provided to us by our transfer agent, as of March 18, 2020, there were 76 holders of record of our ordinary shares, of which 54 record holders holding approximately 83.18% of our ordinary shares had registered addresses in the U.S. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees, including CEDE & Co., the nominee for the Depository Company (the central depository for the U.S. brokerage community), which held approximately 83.18% of our outstanding ordinary shares as of said date.

### **B. Related Party Transactions**

Since 2014, our Board of Directors has approved our entering into several agreements for the purchase of infrastructure, construction and services from C. Mer Industries Ltd., or C. Mer. FIMI holds approximately 36.6% of C. Mer's share capital and our director, Ishay Davidi, is also a member of the board of directors of C. Mer, a publicly traded company (TASE). These transactions were approved by our Audit Committee and Board of Directors in accordance with the requirements of the Israeli Companies Law. In the three years ending on December 31, 2019, our total expenses related to these transactions amounted to \$5.75 million.

In addition, in December 2015 we entered into a memorandum of understanding with Orbit Communication Systems, or Orbit, a publicly traded company (TASE), for development and manufacturing of antenna and related services. In August 2017, FIMI acquired approximately 33.4% of Orbit's share capital, and in November 2019 extended its shareholdings to approximately 41.82%. Representatives of FIMI serve on Orbit's board of directors. This transaction was ratified by our Audit Committee and Board of Directors in accordance with the requirements of the Israeli Companies Law. Our total purchases received from Orbit in the period starting in August 2017 and ending on December 31, 2019 amounted to \$1.4 million.

### **C. Interests of Experts and Counsel**

Not applicable.



## ITEM 8: FINANCIAL INFORMATION

### A. Consolidated Statements

See the consolidated financial statements, including the notes thereto, and the exhibits listed in Item 18 hereof and incorporated herein by this reference.

### Export Sales

For information on our revenues breakdown for the past three years, see Item 5: "Operating and Financial Review and Prospects."

### Legal Proceedings

We are a party to various legal proceedings incident to our business. Except as noted below, there are no material legal proceedings pending or, to our knowledge, threatened against us or our subsidiaries, and we are not involved in any legal proceedings that our management believes, individually or in the aggregate, would have a material adverse effect on our business, financial condition or operating results.

In 2003, the Brazilian tax authority filed a claim against our inactive subsidiary in Brazil, SPC International Ltda, for the payment of taxes allegedly due from the subsidiary. After numerous hearings and appeals at various appellate levels in Brazil, the Supreme Court ruled against the subsidiary in final non-appealable decisions published in June 2017. As of December 31, 2019, the total amount of this claim, including interest, penalties and legal fees is approximately \$8.74 million, of which approximately \$1 million 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, we believe that the subsidiary has solid arguments to sustain its position that further collection proceedings and inclusion of any additional co-obligors in the tax foreclosure certificate are barred due to statute of limitation and that the foreclosure procedures cannot legally be redirected to other group entities and managers who were not cited in the foreclosure certificate due to statute of limitation. Accordingly, we believe that the chances that such redirection will lead to a loss recognition are remote.

In 2014, our Peruvian subsidiary, Gilat To Home Peru, or GTH Peru, initiated arbitration proceedings in Lima against the Ministry of Transport and Communications of Peru, or MTC, and PRONATEL. The arbitration was related to the PRONATEL projects awarded to us in 2000-2001. Under these projects, GTH Peru provided fixed public telephony services in rural areas of Peru. Our subsidiary's main claim was related to damages caused by the promotion of mobile telephony in such areas by the Peruvian government in the years 2011-2015. In June 2018, the arbitration tribunal issued an arbitration award ordering MTC and PRONATEL to pay our subsidiary approximately \$13.5 million. MTC applied to the Superior Court in Lima to declare such award null and void. In July 2019, the Superior Court rejected the annulment action. MTC filed a protective constitutional action against such ruling. In September 2019, the 11<sup>th</sup> Constitutional Court in Lima rejected MTC's action declaring it inadmissible. In October 2019, MTC submitted an appeal against this resolution. In parallel, in July 2019, we have initiated proceedings at the 17<sup>th</sup> Civil Chamber specialized in Commercial Matters of the Superior Court of Justice of Lima for enforcement of the arbitration award. Based on the advice of counsel, such proceedings are expected to continue for 5 years or more. In August 2019, the said Court rejected MTC's objection to the enforcement process, and hence, the enforcement process continues. In October 2019, our subsidiary initiated additional arbitration proceedings against MTC and PRONATEL based on similar grounds for the years 2015-2019.

In October 2017, the Temporary Union UGC-FUSA, a former subcontractor that we hired in connection with the Kioskos Project in Colombia, initiated an arbitration proceeding against our local subsidiary for breach of contract. The amount of the claim is approximately U.S. \$6.3 million. In July 2018, our subsidiary filed its response and a counterclaim against UGC-Fusa and its insurer, Seguros del Estado. In June 2019, the arbitration was concluded by means of a settlement agreement under which our subsidiary paid UGC-FUSA \$400,000.

As a result of this settlement, we reversed a previous accrual and recognized \$3.26 million as reduction of costs of sales.

In 2018, GNP, our subsidiary in Peru, won a government bid for two additional regional projects in the Amazonas and Ica regions in Peru for PRONATEL with a value of approximately \$154 million. GMC Engineering Solutions and SATEL Comunicaciones y Datos, two of the three entities comprising the losing bidder consortium, applied to the superior court in Lima to cancel the bid and obtained a preliminary injunction against the award. Although the lawsuit did not name our subsidiary as a defendant, our subsidiary was served as an interested third party in the process and filed its objection and defenses. Currently, following PRONATEL's request, our subsidiary continues performing these projects. Based on the advice of counsel, we believe that the chances of success of the proceedings seeking to cancel the bid are remote.

Various legal proceedings have been initiated by purported shareholder plaintiffs against Gilat and its directors and against Comtech and its principal executive officer with respect to the Merger and the disclosure contained in the proxy statement/registration statement on Form S-4 that was filed with the SEC on March 2, 2020 seeking approval of the Merger and certain other matters and registering the shares of Comtech Common Stock to be issued in connection with the Merger. The results of any such potential legal proceedings are difficult to predict and could delay or prevent the Merger from becoming effective in a timely manner.

We are also a party to various regulatory proceedings incident to our business. To the knowledge of our management, none of such proceedings is material to us.

#### **Dividend Policy**

On March 28, 2019, our board of directors declared a cash dividend in the amount of \$0.45 per share (approximately \$24.9 million in the aggregate), paid on April 8, 2019 to shareholders of record on March 28, 2019. This was the first time that we distributed a dividend. We have not adopted a general policy regarding the distribution of dividends and make no statements as to the distribution of dividends in the foreseeable future. The terms of some of our financing arrangements restrict us from paying dividends to our shareholders and require prior approval of certain banks which extended us loans. Israeli law limits the distribution of cash dividends to the greater of retained earnings or earnings generated over the two most recent years, in either case provided that we reasonably believe that the dividend will not render us unable to meet our current or foreseeable obligations when due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that such dividend distribution will prevent the company from satisfying its current and foreseeable obligations, as they become due. Our Articles of Association provide that no dividends shall be paid otherwise than out of our profits and that any such dividend shall carry no interest. For information regarding taxation of dividend, see ITEM 10.E – “Additional Information - Taxation - Israeli Tax Consequences of Holding Our Stock - Dividends”.

#### **B. Significant Changes**

Not applicable.

### **ITEM 9: THE OFFER AND LISTING**

#### **A. Offer and Listing Details**

Our ordinary shares are listed on the NASDAQ Global Select Market under the symbol “GILT” and are also traded on the TASE.

#### **B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ordinary shares are listed on the NASDAQ Global Select Market under the symbol “GILT” and are also traded on the TASE.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expense of the Issue**

Not applicable.

**ITEM 10: ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

Set out below is a description of certain provisions of our Articles of Association and of the Israeli Companies Law related to such provisions. This description is only a summary, does not purport to be complete and is qualified by reference to the full text of the Articles of Association, which are incorporated by reference as exhibits to this annual report, and to Israeli law.

**Registration and Purposes**

We are an Israeli public company registered with the Israel companies register, registration No. 52-003893-6.

Under the Companies Law, a company may define its purpose as to engage in any lawful business and may broaden the scope of its purpose to the grant of reasonable donations for any proper charitable cause, even if the basis for any such donation is not dependent upon business considerations. Our Articles of Association provide that our purpose is to engage in any business permitted by law and that we may also grant reasonable donations for any proper charitable cause.

**Powers of the Directors**

Under the provisions of the Israeli Companies Law and our Articles of Association, a director cannot vote on a proposal, arrangement or contract in which he or she has a personal interest, nor attend a meeting during which such transaction is considered, except in event of a transaction that is not extraordinary or for the purpose of presenting the proposed transaction, if the chairman of the audit committee or board of directors (as applicable) determines it necessary. In addition, the terms of office and employment of the directors require the approval of the compensation committee, the board of directors and shareholders. For more information regarding the requirements for approval of certain transactions, see Item 6B - “Directors, Senior Management and Employees – “Compensation of Directors and Officers”.

**Rights Attached to Ordinary Shares**

Please refer to Exhibit 2.1 for Items 10.B.3, B.4, B.6, B.7, B.8, B.9 and B.10.

### **C. Material Contracts**

While we have numerous contracts with customers and distributors, we do not deem any individual contract to be a material contract that is not in the ordinary course of our business, except as set forth below:

In March and December 2015, the Peruvian government awarded us the PRONATEL Regional Projects for the construction of networks, operation of the networks for a defined period and their transfer to the government, which are expected to generate aggregate revenues of \$393 million to be recognized over approximately 14-15 years. In accordance with the bid conditions, we established a subsidiary in Peru, GNP, to enter into written agreements with the Peruvian government for each of the four regional projects that were awarded. In 2018, we were awarded two additional PRONATEL Regional Projects with expected revenues of approximately \$154 million over approximately 13-15 years for the construction of networks, operation of the networks for a defined period and transfer of the transport networks to the government. See Item 4.B. – “Information on the Company – Business Overview”.

In order to guarantee our performance obligations and the down payment we received under the PRONATEL Regional Projects, we issued bank guarantees and surety bonds for the benefit of PRONATEL. The bank guarantees were issued by FIBI and HSBC through a Peruvian bank, and the surety bonds were issued by Amtrust through a Peruvian bank. The surety bonds issued by Amtrust expired on December 2, 2019 after completion of the relevant milestone in the PRONATEL Regional Projects.

The aggregate amount of the bank guarantees issued on our behalf by HSBC and FIBI as of December 31, 2019, was approximately \$99.3 million. We have provided HSBC and FIBI with various pledges and have deposited approximately \$24.2 million held as restricted cash as collateral for HSBC and FIBI guarantees.

### **D. Exchange Controls**

There are no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

Non-residents of Israel who purchase our securities with non-Israeli currency will be able to repatriate dividends (if any), liquidation distributions and the proceeds of any sale of such securities, into non-Israeli currencies at the rate of exchange prevailing at the time of repatriation, provided that any applicable Israeli taxes have been paid (or withheld) on such amounts.

Neither our Articles of Association nor the laws of the State of Israel restrict in any way the ownership or voting of Ordinary Shares by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel.

### **E. Taxation**

*The following is a discussion of Israeli and U.S. tax consequences material to our shareholders. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.*

Holders of our ordinary shares should consult their own tax advisors as to the U.S., Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

## ISRAELI TAX CONSIDERATIONS

The following is a summary of certain Israeli income tax and capital gains tax consequences for non-Israeli residents as well as Israeli residents holding our ordinary shares. The summary is based on provisions of the Israeli Income Tax Ordinance (new version), 1961 and regulations promulgated thereunder, as well as on administrative and judicial interpretations, all as currently in effect, and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. There might be changes in the tax rates and in the circumstances in which they apply, and other modifications which might change the tax consequences to you. The summary is intended for general purposes only, and does not relate to all relevant tax aspects. The discussion is not intended and should not be construed as legal or professional tax advice sufficient for decision making. This summary does not discuss all aspects of Israeli income and capital gain taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special status or treatment under Israeli tax law.

FOR THE FOREGOING AND OTHER REASONS, YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF YOUR HOLDINGS. WE ARE NOT MAKING ANY REPRESENTATIONS REGARDING THE PARTICULAR TAX CONSEQUENCES AS TO ANY HOLDER, NOR ARE WE OR OUR ADVISORS RENDERING ANY FORM OF LEGAL OPINION OR PROFESSIONAL TAX ADVICE AS TO SUCH TAX CONSEQUENCES.

Generally, income of Israeli companies is subject to corporate tax. The Israeli corporate tax rate since January 1, 2018 is 23%, compared with 24% in 2017.

### Israeli Tax Consequences of Holding Our Stock

#### Non-Israeli residents

Non-Israeli residents are subject to tax on income accrued or derived from Israeli sources. These include, inter alia, dividends, royalties and interest, as well as other types of income (e.g., from provision of services in Israel). We are required to withhold income tax on any such payments we make to non-residents. Israel presently has no estate or gift tax.

#### Capital Gains

Israeli law generally imposes tax on capital gains derived from the sale of securities and other Israeli capital assets, including shares in Israeli resident companies, unless a specific exemption is available or a treaty between Israel and the country of the non-resident provides otherwise. Capital gains from sales of our ordinary shares will be tax exempt for non-Israeli residents provided certain conditions are met (one of these conditions is that the gains are not derived through a permanent establishment that the non-resident maintains in Israel).

Subject to the exemptions provided by the Israeli law, as described above, pursuant to the tax treaty between Israel and the U.S., or the Treaty, U.S. residents are generally exempt from Israeli capital gains tax on capital gain derived from the sale of our shares. This exemption does not apply to U.S. residents holding (at the time of the sale or in the preceding 12 months) 10% or more of the voting power in the Company.

#### Dividends

The statutory withholding tax rate for dividends distributed by an Israeli company to non-resident shareholders is generally 25%. The rate is reduced to 15% for dividends distributed out of income generated by an Approved Enterprise. A different withholding tax rate may apply as a result of a tax treaty between Israel and shareholder's country of residence.

Under the Treaty, the maximum Israeli tax rate on dividends paid to a corporate holder of our ordinary shares who is a U.S. resident is 25%. However, dividends paid to a U.S. corporation holding at least 10% of our voting power in the year of the sale and in the entire preceding tax year shall be subject to a 15% tax withholding rate, if the dividend is generated by an Approved Enterprise or 12.5% if the dividends are not generated by an Approved Enterprise.

## **Interest**

Interest paid by us (e.g., on our convertible notes) is treated as income derived from an Israeli source and is subject to Israeli tax. Generally, interest payments are subject to withholding of a standard tax rate of 25% (the rate may be reduced to 15% for certain debt instruments), unless reduced pursuant to an applicable tax treaty. In some instances (e.g., where the recipient of the interest is an individual holding 10% or more of our shares or voting rights) a higher tax rate would apply.

## **Filing of Tax Returns in Israel**

Non-Israeli residents who receive interest, dividend or royalty income derived or accrued in Israel, from which Israeli tax was withheld, are generally exempt from Israeli tax filing obligations, provided that: (i) such income was not derived from a business conducted in Israel, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

## **Israeli Residents**

### **Capital Gains**

Israeli law imposes capital gains tax on capital gains derived from the sale of securities and other capital assets, including ordinary shares. Generally, gains from sale of ordinary shares acquired prior to January 1, 2012 are subject to a 20% capital gains tax for individuals. The tax rate is increased to 25% for sale of shares by an individual shareholder holding 10% or more of the shares or voting power in the company (i.e., a substantial shareholder). Corporate shareholders are subject to a 25% capital gains tax rate.

Following enactment of the Tax Burden Law, starting January 1, 2012, the capital gains tax rate applicable to individuals upon the sale of our shares is such individual's marginal (income) tax rate but not more than 25% (or 30% with respect to a substantial shareholder). With respect to corporate investors, the rate of capital gains tax imposed on the sale of shares is equal to the corporate tax rate, which was 24% in 2017 and 23% effective as of January 1, 2018.

Individual shareholders dealing with securities in Israel are taxed at their marginal tax rates applicable to business income (and up to 47% in 2017, 2018 and 2019).

In addition, as of January 1, 2013, shareholders that are individuals who have taxable income that exceeds ILS 800,000 in a tax year, will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of such amount. Effective January 1, 2017, the High Income Tax rate increased to 3% and its threshold was lowered to ILS 640,000 in 2017 to ILS 641,880 in 2018 and to ILS 649,560 in 2019. For this purpose, taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

### **Dividends**

Distribution of dividend income, other than bonus shares (stock dividends), to Israeli residents holding our ordinary shares is generally subject to income tax at a rate of 25% for individuals and 30% for a substantial individual shareholder. Israeli resident corporations are exempt from income tax on dividends, provided the dividend was paid out of income generated in Israel.

Generally, dividends distributed from taxable income accrued during the period of benefits of Approved Enterprise are taxable at a rate of 15% and dividends distributed from taxable income accrued during the period of benefits of a Benefitted Enterprise, are taxable at the rate of 15%, if the dividend is distributed during the tax benefit period, or within an additional 12 years after the lapse of that period.

## **Interest**

Interest income is generally subject to a tax rate of up to 25% for individuals. The rate applicable to an individual who is substantial shareholder is the marginal tax rate. The rate may be reduced to 15% for certain debt instruments. Interest paid to Israeli companies is taxed at the standard corporate income tax rate applicable to companies. We may be required to withhold tax on interest payments up to the applicable corporate tax rate for companies, and in certain instances up to the marginal tax rate for individuals.

## **Tax Benefits under the Law for the Encouragement of Capital Investments, 1959**

### **Tax Benefits prior to the Amendment of 2005**

The Law for the Encouragement of Capital Investments, 1959, or Investments Law, provides that a capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel, be designated as an "Approved Enterprise".

An Approved Enterprise is eligible for tax benefits on taxable income derived from its approved enterprise programs. We have been granted "Approved Enterprise" status under the Investment Law for nine investment programs.

### **Tax Benefits under the 2005 Amendment**

On April 1, 2005, a comprehensive amendment to the Investment Law came into effect, (the "Amendment"). The Amendment includes revisions to the criteria for investments qualified to receive tax benefits as an Approved Enterprise. The Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004.

As a result of the Amendment, it was no longer necessary for a company to apply to the Investment Center in order to acquire Approved Enterprise status. Instead, a company whose facilities meet the criteria for tax benefits set out by the Amendment, may receive the tax benefits afforded to a "Benefitted Enterprise" by independently selecting the tax year from which the period of benefits under the Investment Law are to commence and notifying the Israeli Tax Authority within 12 months of the end of that year.

Generally, tax benefits under the Amendment are available to production facilities (or other eligible facilities), that derive more than 25% of their business income from exports. In order to receive the tax benefits, the company must make a certain minimum investment in the acquisition of manufacturing assets such as machinery and equipment. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to its Benefitted Enterprise.

We were eligible under the terms of minimum qualification investment and elected 2011 to have the tax benefits apply.

Tax benefits are available until the earlier of 7 or 10 years from the date that the period of benefits commenced, and the lapse of 12 years from the first day of the year in which the election was made. Our periods of benefits as a Benefitted Enterprise under the 2011 election will expire in 2023.

The tax benefits include exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Benefitted Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Benefitted Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate (10%-25%) in respect of the grossed up amount of the dividend that we may distribute. We would be required to withhold tax at a rate of 15% from any dividends distributed from income derived from the Benefitted Enterprise.

## **Benefits under the 2011 and 2016 Amendments**

Under an amendment to the Investment Law effective January 1, 2011, upon an irrevocable election made by the company, a uniform corporate tax rate will apply to all qualifying income of the company, as opposed to the previous law's tax incentives that were limited to income only from Benefitted Enterprises during their benefit period (Preferred Enterprise). Under the amended law, the uniform tax rate was 7% in geographical areas in Israel designated as Development Zone A and 12.5% elsewhere in Israel in 2013. The uniform tax rate from 2014 and onwards is set to 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel.

A dividend distributed from income which is attributed to a Preferred Enterprise will be subject to withholding tax at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% in 2014 and onwards (iii) non-Israeli resident - 20% in 2014 and onwards, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

According to an Amendment from December 2016, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Under the transitory provisions of the January 1, 2011 legislation, we may opt whether to irrevocably implement the Amendment and waive benefits provided under the prior law or keep the prior benefits. This decision may be taken at any stage. We will consider in the future whether to opt for the benefits under the Amendment.

The December 2016 amendment also prescribes special tax tracks for technological enterprises. The new tax tracks under the amendment are as follows:

*Technological preferred enterprise* - an enterprise whose total consolidated revenues (parent company and all subsidiaries) is less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

*Special technological preferred enterprise* - an enterprise whose total consolidated revenues (parent company and all subsidiaries) exceeds NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

## **Israeli Transfer Pricing Regulations**

Israeli transfer pricing legislation generally provides that all cross-border transactions carried out between related parties be conducted on an arm's length basis and be taxed accordingly. The transfer pricing regulations are not expected to have a material effect on our company.



## United States Federal Income Taxation

The following is a general discussion of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that may be relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, (the "Code") Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, or the Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively or to differing interpretations. There can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. This discussion does not address all tax considerations that may be relevant with respect to an investment in our ordinary shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions or financial services entities;
- certain insurance companies;
- investors liable for alternative minimum tax;
- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- retirement plans;
- S corporations
- pension funds;
- certain former citizens or long-term residents of the United States;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold ordinary shares through partnerships or other pass-through entities;
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- direct, indirect or constructive owners of investors that actually or constructively own at least 10% of the total combined voting power of our shares or at least 10% of our shares by value; or
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns our ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns our ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation.

For purposes of this summary, as used herein, the term "U.S. Holder" means a person that is eligible for the benefits of the Treaty and is a beneficial owner of an ordinary share who is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof or the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

Unless otherwise indicated, it is assumed for the purposes of this discussion that the Company is not, and will not become, a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes. See “—*Passive Foreign Investment Companies*” below.

#### Taxation of Distributions

Subject to the discussion below under the heading “—*Passive Foreign Investment Companies*,” the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes when such distribution is actually or constructively received, to the extent such distribution is paid out of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income as ordinary income unless such dividends meet the requirements of “qualified dividend income” as set forth in more detail below. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your adjusted tax basis in our ordinary shares and any amount in excess of your tax basis would be treated as gain from the sale of ordinary shares. See “—*Sale, Exchange or Other Disposition of Ordinary Shares*” below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would generally be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder’s circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares, may be a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty (if any) will not be eligible for credit against a U.S. Holder’s federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends paid with respect to our common stock generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate. A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder’s position in ordinary shares is hedged. An election to deduct foreign taxes instead of claiming foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (possibly including the PFIC rules discussed below), “qualified dividend income” received by a non-corporate U.S. Holder may be subject to tax at the lower long-term capital gain rates (currently, a maximum rate of 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate if we are a “qualified foreign corporation,” as defined in Code section 1(h)(11)(C). We will be a qualified foreign corporation if either: (i) we are entitled to benefits under the Treaty, or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States (see discussion below). However, no assurance can be given that our ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

### **Sale, Exchange or Other Disposition of Ordinary Shares**

Subject to the discussion of PFIC rules below, if you sell or otherwise dispose of our ordinary shares (other than with respect to certain non-recognition transactions), you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our ordinary shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently at a maximum of 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of our ordinary shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder is required to calculate the value of the proceeds as of the “trade date” and may have a foreign currency gain or loss for U.S. federal income tax purposes in the event of any difference between the U.S. dollar value of NIS prevailing on the trade date and on the settlement date. Any such currency gain or loss generally would be treated as U.S.- source ordinary income or loss and would be subject to tax in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

### **Passive Foreign Investment Companies**

We believe that we were not a PFIC for U.S. federal income tax purposes for the taxable year of 2019. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that our analysis prevails or that we will not be considered a PFIC for any future taxable year. If we were a PFIC for any taxable year during which a U.S. Holder owned ordinary shares, certain adverse consequences could apply to the U.S. Holder. Specifically, unless a U.S. Holder makes one of the elections mentioned below, gain recognized by the U.S. Holder on a sale or other disposition of ordinary shares would be allocated ratably over the U.S. Holder’s holding period for the ordinary shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our ordinary shares during the preceding three years or the U.S. Holder’s holding period, whichever is shorter, would be subject to taxation as described immediately above. Certain elections (such as a mark-to-market election or a QEF election) may be available to U.S. Holders and may result in alternative tax treatment. U.S. Holders should consult their tax advisors as to the availability and consequences of a mark-to-market election or a QEF election with respect to their ordinary shares.

In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS on IRS Form 8621.

#### **Additional Tax on Investment Income**

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds may be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains from the sale or exchange of our ordinary shares.

#### **Backup Withholding and Information Reporting**

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 24%. Backup withholding will not apply, however, if you (i) fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that own "specified foreign financial assets" (as defined in Section 6038D of the Code and the regulations thereunder) with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets." Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. In addition, in the event a U.S. Holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of all or a part of the U.S. federal income taxes of such U.S. Holder for the related tax year may not close until three years after the date that the required information is filed. A U.S. Holder is urged to consult the U.S. Holder's tax advisor regarding the reporting obligation.

Any U.S. Holder who acquires more than \$100,000 of our ordinary shares or holds 10% or more in vote or value of our ordinary shares may be subject to certain additional U.S. information reporting requirements.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.**

**F. Dividend and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to “foreign private issuers” as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the Securities and Exchange Commission reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website (<http://www.gilat.com>) promptly following the filing of our annual report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

The Securities and Exchange Commission maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at Gilat House, 21 Yegia Kapayim Street, Kiryat Arye, Petah Tikva, 4913020 Israel.

**I. Subsidiary Information**

Not applicable.

**ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Foreign Currency Risk**

A significant portion of our revenues are generated in U.S. dollars or linked to the dollar. In addition, a substantial portion of our costs are incurred in U.S. dollars. We believe that the U.S. dollar is the primary currency of the economic environment in which our Company and certain of our subsidiaries operate. Thus, the functional and reporting currency of our Company and certain of our subsidiaries is the U.S. dollar.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are remeasured into U.S. dollars in accordance with ASC 830, “Foreign Currency Matters” (“ASC 830”). All transaction gains and losses of the remeasurement of monetary balance sheet items are reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

The financial statements of some of our foreign subsidiaries, whose functional currency has been determined to be their local currency, have been translated into U.S. dollars. Assets and liabilities have been translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts have been translated using specific rates. The resulting translation adjustments are reported as a component of equity in accumulated other comprehensive income (loss).

While a significant portion of our revenues and expenses are generated in U.S. dollars, a portion of our expenses are denominated in NIS, and to a lesser extent, other non-U.S. dollar currencies which lead us to be exposed to financial market risk associated with changes in foreign currency exchange rates. In order to reduce the impact of foreign currency rate volatility of future cash flows caused by changes in foreign exchange rates, in some cases we use currency forward contracts. If our currency forward contracts meet the definition of a hedge, and are so designated, changes in the fair value of the contracts will be offset against changes in the fair value of the hedged assets or liabilities through earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. Our hedging reduces, but does not eliminate, the impact of foreign currency rate movements, and due to such movements, the results of our operations may be adversely affected.

The following sensitivity analysis illustrates the impact on our non-dollar net monetary liabilities assuming an instantaneous 10% change in foreign currency exchange rates from year-end levels, with all other variables held constant. At December 31, 2019, a 10% strengthening of the U.S. dollar versus other currencies would have resulted in a decrease of approximately \$0.3 million in our net monetary liabilities, while a 10% weakening of the dollar versus all other currencies would have resulted in an increase of approximately \$0.4 million in our net monetary liabilities.

During the year ended December 31, 2019, we recognized a net loss of \$0.3 million related to the effective portion of our hedging instruments. The effective portion of the hedged instruments was included as an offset or addition to payroll expenses in the statement of operations. The ineffective portion of the hedged instrument during the year ended December 31, 2019 was immaterial and was recorded as financial expenses, net.

As of December 31, 2019, we had no outstanding forward contracts that did not meet the requirement for hedge accounting.

**ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**PART II**

**ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None

**ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

## ITEM 15: CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2019, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the rules of the Securities and Exchange Commission.

### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting, as of December 31, 2019. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2019, our internal control over financial reporting is effective.

The effectiveness of management's internal control over financial reporting as of December 31, 2019 has been audited by our company's independent registered public accountants, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. The report, which expresses an unqualified opinion on our company's internal control over financial reporting, is included with our consolidated financial statements included elsewhere in this annual report.

### Changes in Internal Control over Financial Reporting

During the period covered by this Annual Report on Form 20-F, no changes in our internal control over financial reporting have occurred that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16: RESERVED****ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that each of Ms. Cohen and Mr. Shkedy meets the definition of an audit committee financial expert as defined by rules of the Securities and Exchange Commission. Our Board also determined that each of Ms. Cohen and Mr. Shkedy is independent under the requirements of the NASDAQ Marketplace Rules. For a brief listing of Ms. Cohen and Mr. Shkedy's relevant experience, see Item 6.A. "Directors, Senior Management and Employees - Directors and Senior Management."

**ITEM 16B: CODE OF ETHICS**

We have adopted a Code of Ethics for executive and financial officers that also applies to all of our employees. The Code of Ethics is publicly available on our website at [www.gilat.com](http://www.gilat.com). Written copies are available upon request. If we make any substantive amendments to the Code of Ethics or grant any waivers, including any implicit waiver, from a provision of this code to our chief executive officer, chief financial officer or corporate controller, we will disclose the nature of such amendment or waiver on our website. Our Code of Ethics includes a whistleblower policy which provides an anonymous means for employees to communicate with various bodies within our company, including our Audit Committee.

**ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES****Fees Billed or Expected to be Billed by Independent Auditors**

The following table sets forth, for each of the years indicated, the fees billed or expected to be billed to us by our independent auditors and the percentage of each of the fees out of the total amount billed or expected to be billed by the auditors.

Services Rendered	Year Ended December 31,			
	2019		2018	
	Fees (in thousands)	Percentages	Fees (in thousands)	Percentages
Audit fees (1)	\$ 670	71.28%	\$ 668	80.34%
Tax fees (2)	\$ 175	18.58%	\$ 97	11.62%
Other (3)	\$ 95	10.14%	\$ 67	8.04%
Total	\$ 939	100%	\$ 832	100%

- (1) Audit fees are fees for audit services for each of the years shown in this table, including fees associated with the annual audit, services provided in connection with audit of our internal control over financial reporting and audit services provided in connection with other statutory or regulatory filings.
- (2) Tax fees are fees for professional services rendered by our auditors for tax compliance, tax planning and tax advice on actual or contemplated transactions.
- (3) Other fees are fees for professional services other than audit or tax related fees, rendered in connection with our business activities; such fees in 2019 were mainly related to implementation of new accounting systems and in 2018 were mainly related to implementation of new accounting standards.

**Policies and Procedures**

Our Audit Committee has adopted a policy and procedures for the approval of all audit and non-audit services rendered by our principal accountants, Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global and other members of Ernst & Young Global. The policy generally requires the Audit Committee's approval of the scope of the engagement of our principal accountants or on an individual engagement basis.



**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E: PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

In the year ended December 31, 2019, neither we nor any affiliated purchaser purchased any of our securities.

**ITEM 16F: CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

**ITEM 16G. CORPORATE GOVERNANCE**

Under NASDAQ Marketplace Rule 5615(a)(3) or Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices in lieu of certain requirements of Listing Rule 5600 Series, with the exception of those rules which are required to be followed pursuant to the provisions of Listing Rule 5615(a)(3).

We have elected to follow Israeli law and practice instead of the requirements of Listing Rule 5600 Series, as described below:

- The requirement to obtain shareholder approval for the establishment or material amendment of certain equity based compensation plans and arrangements, under which shares may be acquired by officers, directors, employees or consultants. Under Israeli law and practice, the approval of the board of directors is required for the establishment or material amendment of such equity based compensation plans and arrangements. However, any equity based compensation arrangement with a director or the Chief Executive Officer or the material amendment of such an arrangement must be approved by our Compensation Committee, Board of Directors and shareholders, in that order.
- The requirements regarding the director nominations process. We do not have a nomination committee. Under Israeli law and practice, our Board of Directors is authorized to recommend to our shareholders director nominees for election, and certain of our shareholders may nominate candidates for election as directors by the general meeting of shareholders.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17: FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18: FINANCIAL STATEMENTS**

The financial statements required by this item are found at the end of this annual report, beginning on page F-1.

**ITEM 19: EXHIBITS**

- 1.1 Memorandum of Association, as amended. Previously filed as Exhibit 1.1 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2000, which Exhibit is incorporated herein by reference.
- [1.2 Articles of Association, as amended and restated as of December 29, 2011. Previously filed as Exhibit 1.2 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2011, which Exhibit is incorporated herein by reference.](#)
- [2.1 Description of the rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934](#)
- [4.1 Summary of material provisions of the loan documents between Gilat Satellite Networks Ltd. and First International Bank of Israel, dated December 14, 2010. Previously filed as Exhibit 4.4 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2010, which Exhibit is incorporated herein by reference.](#)
- [4.2 Summary of material provisions of an amendment dated February 7, 2013 to the loan documents between Gilat Satellite Networks Ltd. and First International Bank of Israel, dated December 14, 2010. Previously filed as Exhibit 4.5 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2012, which Exhibit is incorporated herein by reference.](#)
- [4.3 English summary of material provisions of an amendment \(in Hebrew\) dated August 17, 2015 to the loan agreements between Gilat Satellite Networks Ltd. and First International Bank of Israel, dated December 14, 2010. Previously filed as Exhibit 4.3 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.4 Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\), previously filed on April 8, 2009 as Exhibit 4.4 to our Registration Statement on Form S-8 \(File No. 333-158476\), and incorporated herein by reference.](#)
- [4.5 Amendment to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\), previously filed on June 11, 2015 as Exhibit 4.4 to our Registration Statement on Form S-8 \(File No. 333-204867\), and incorporated herein by reference.](#)
- [4.6 Amendment No. 2 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\), previously filed on April 19, 2016 as Exhibit 4.4 to our Registration Statement on Form S-8 \(File No. 333-210820\), and incorporated herein by reference.](#)
- [4.7 Amendment No. 3 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\) dated February 13, 2017. Previously filed as Exhibit 4.7 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2016, which Exhibit is incorporated herein by reference.](#)
- [4.8 Amendment No. 4 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\) dated March 27, 2017. Previously filed as Exhibit 4.8 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2016, which Exhibit is incorporated herein by reference.](#)
- [4.9 Amendment No. 5 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\), previously filed on November 14, 2017 as Exhibit 4.8 to our Registration Statement on Form S-8 \(File No. 333-221546\), and incorporated herein by reference.](#)
- [4.10 Amendment No. 6 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\) as adopted on February 12, 2018 previously filed as Exhibit 4.10 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2017, which Exhibit is incorporated herein by reference.](#)
- [4.11 Amendments No. 7, 8 and 9 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\) as adopted on August 6, 2019, February 11, 2019 and February 12, 2019 respectively, previously filed as Exhibit 4.11 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference.](#)

- [4.12](#) [Amendment No. 10 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\), previously filed on May 14, 2019 as Exhibit 4.11 to our Registration Statement on Form S-8 \(File No. 333-231442\), and incorporated herein by reference.](#)
- [4.13](#) [Amendment No. 11 to Gilat Satellite Networks Ltd. 2008 Share Incentive Plan \(including the Israeli Sub-plan to the Gilat Satellite Networks Ltd. 2008 Share Incentive Plan\), previously filed on January 23, 2020 as Exhibit 4.12 to our Registration Statement on Form S-8 \(File No. 333-236028\), and incorporated herein by reference.](#)
- [4.14](#) [Executive Compensation Plan previously filed as Annex C to the proxy statement filed on Form 6-K on May 15, 2019, which Exhibit is incorporated herein by reference.](#)
- [4.15](#) [English translation based on the English version published by PRONATEL of the Financing Agreement between PRONATEL and Gilat Networks Peru S.A. dated December 29, 2015, for Broadband Installation for Integral Connectivity and Social Development of the Cusco's region and a non-literal English translation of the Economic Proposal annexed thereto. Previously filed as Exhibit 4.7 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.16](#) [English translation based on the English version published by PRONATEL of the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. dated May 27, 2015, for Broadband Installation for Integral Connectivity and Social Development of the Ayacucho's region and a non-literal English translation of the Economic Proposal annexed thereto. Previously filed as Exhibit 4.8 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.17](#) [English translation based on the English version published by PRONATEL of the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. dated May 27, 2015, for Broadband Installation for Integral Connectivity and Social Development of the Apurímac's region and a non-literal English translation of the Economic Proposal annexed thereto. Previously filed as Exhibit 4.9 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.18](#) [English translation based on the English version published by PRONATEL of the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. dated May 27, 2015, for Broadband Installation for Integral Connectivity and Social Development of the Huancavelica's region and a non-literal English translation of the Economic Proposal annexed thereto. Previously filed as Exhibit 4.10 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.19](#) [English translation of the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. dated June 2018, for the Installation of Broadband for Comprehensive Connectivity and Social Development of the Amazonas Region. Previously filed as Exhibit 4.17 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference.](#)

- [4.20](#) [English translation of the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. dated June 2018, for the Installation of Broadband for Comprehensive Connectivity and Social Development of the Ica Region. Previously filed as Exhibit 4.18 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.21](#) [English translation of the Tenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for The Installation of Broadband for the Comprehensive Connectivity and Social Development of the Cusco Region, dated December 20, 2018. Previously filed as Exhibit 4.19 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.22](#) [English translation of the Fourteenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for The Installation of Broadband for the Comprehensive Connectivity and Social Development of the Ayacucho Region, dated February 12, 2018. Previously filed as Exhibit 4.20 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.23](#) [English translation of the Fifteenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for the Installation of Broadband for the Comprehensive Connectivity and Social Development of the Apurimac Region, dated February 12, 2018. Previously filed as Exhibit 4.21 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.24](#) [English translation of the Fifteenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for the Installation of Broadband for the Comprehensive Connectivity and Social Development of the Huancavelica Region, dated February 12, 2018. Previously filed as Exhibit 4.22 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.25](#) [English translation of the Sixteenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for the Installation of Broadband for the Comprehensive Connectivity and Social Development of the Huancavelica Region, dated March 7, 2019. Previously filed as Exhibit 4.23 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.26](#) [English translation of the Sixteenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for the Installation of Broadband for the Comprehensive Connectivity and Social Development of the Apurimac Region, dated March 8, 2019. Previously filed as Exhibit 4.24 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.27](#) [English translation of the Fifteenth Addendum to the Financing Agreement between the PRONATEL and Gilat Networks Peru S.A. for the Project for the Installation of Broadband for the Comprehensive Connectivity and Social Development of the Ayacucho Region, dated March 8, 2019. Previously filed as Exhibit 4.25 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2018, which Exhibit is incorporated herein by reference](#)
- [4.28](#) [Copy of Deed of Indemnity dated May 20, 2015 and Deed of Consent dated December 29, 2015, both entered into between Gilat Satellite Networks Ltd. and Amtrust Europe Limited. Previously filed as Exhibit 4.11 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.29](#) [Copy of Memorandum of Understanding and amendment thereto dated December 28, 2015 and January 28 2016, respectively, entered between Gilat Networks Peru SA, and Amtrust Insurance Spain, SL. Previously filed as Exhibit 4.12 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2015, which Exhibit is incorporated herein by reference.](#)
- [4.30](#) [Summary in English of the material provisions of an amendment \(in Hebrew\) dated July 13, 2016, and an amendment \(in Hebrew\) dated December 15, 2016, to the Letter of Undertaking \(in Hebrew\) dated August 17, 2015 between Gilat Satellite Networks Ltd. and First International Bank of Israel Ltd. Previously filed as Exhibit 4.16 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2016, which Exhibit is incorporated herein by reference.](#)
- [4.31](#) [Summary in English of the material provisions of the agreement between Gilat Satellite Networks Ltd. and HSBC, dated December 18, 2016. Previously filed as Exhibit 4.17 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2016, which Exhibit is incorporated herein by reference.](#)
- [4.32](#) [Form of Indemnity Letter entered by and between Gilat Satellite Networks Ltd. and its officers and Directors, approved by the shareholders as of January 4, 2018 previously filed as Exhibit 4.20 to our Annual Report on Form 20-F for the fiscal year ending December 31, 2017, which Exhibit is incorporated herein.](#)
- [4.33](#) [Agreement and Plan of Merger, dated January 29, 2020, by and among Comtech Telecommunications Corp., Convoy Ltd. and Gilat Satellite Networks Ltd., previously filed as Exhibit 99.1 to Form 6-K filed on January 29, 2020, which Exhibit is incorporated herein.](#)
- [4.34](#) [Form of Voting Agreement, dated January 29, 2020, by and among Comtech Telecommunications Corp. and certain shareholders of Gilat Satellite Networks Ltd., previously filed as Exhibit 99.2 to Form 6-K filed on January 29, 2020, which Exhibit is incorporated herein.](#)

<a href="#">8.1</a>	<a href="#">List of subsidiaries.</a>
<a href="#">12.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</a>
<a href="#">12.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</a>
<a href="#">13.1</a>	<a href="#">Certification by Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">13.2</a>	<a href="#">Certification by Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">15.1</a>	<a href="#">Consent of Kost Forer Gabbay &amp; Kasierer, a member of Ernst &amp; Young Global.</a>

101.INS	XBRL Instance Document *.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GILAT SATELLITE NETWORKS LTD.

By: /s/ Yona Ovadia

Yona Ovadia  
Chief Executive Officer

Date: March 23, 2020

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

IN U.S. DOLLARS

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and Board of Directors of**

**GILAT SATELLITE NETWORKS LTD.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Gilat Satellite Networks Ltd. and its subsidiaries ("the Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 23, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

We have served as the Company's auditor since 2000.  
Tel-Aviv, Israel  
March 23, 2020





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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and Board of Directors of**

**GILAT SATELLITE NETWORKS LTD.**

### **Opinion on Internal Control over Financial Reporting**

We have audited Gilat Satellite Networks Ltd. and its subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Gilat Satellite Networks Ltd. and its subsidiaries ("the Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes, and our report dated March 23, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.



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### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

Tel-Aviv, Israel  
March 23, 2020

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 74,778	\$ 67,381
Restricted cash	27,067	32,305
Restricted cash held by trustees	-	4,372
Trade receivables, net	47,731	47,164
Contract assets	23,698	47,760
Inventories	27,203	21,109
Other current assets	23,007	26,022
<u>Total current assets</u>	<u>223,484</u>	<u>246,113</u>
LONG-TERM ASSETS:		
Restricted cash	124	146
Severance pay funds	6,831	6,780
Deferred taxes	18,455	4,127
Operating lease right-of-use asset	5,211	-
Other long term receivables	10,156	7,276
<u>Total long-term assets</u>	<u>40,777</u>	<u>18,329</u>
PROPERTY AND EQUIPMENT, NET	<u>82,584</u>	<u>84,403</u>
INTANGIBLE ASSETS, NET	<u>1,523</u>	<u>2,434</u>
GOODWILL	<u>43,468</u>	<u>43,468</u>
<u>Total assets</u>	<u>\$ 391,836</u>	<u>\$ 394,747</u>

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

## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2019	2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loans	\$ 4,096	\$ 4,458
Trade payables	20,725	24,636
Accrued expenses	54,676	67,533
Advances from customers and deferred revenues	27,220	29,133
Operating lease liability	1,977	-
Other current liabilities	12,261	14,588
	<u>120,955</u>	<u>140,348</u>
<u>Total</u> current liabilities		
LONG-TERM LIABILITIES:		
Long-term loans, net of current maturities	4,000	8,098
Accrued severance pay	7,061	6,649
Long-term advances from customers	2,866	-
Operating lease liability	3,258	-
Other long-term liabilities	108	580
	<u>17,293</u>	<u>15,327</u>
<u>Total</u> long-term liabilities		
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.2 par value: Authorized: 90,000,000 shares at December 31, 2019 and 2018;		
Issued and outstanding: 55,493,258 and 55,176,107 shares at December 31, 2019 and 2018,		
respectively	2,643	2,625
Additional paid-in capital	927,348	924,856
Accumulated other comprehensive loss	(5,048)	(5,380)
Accumulated deficit	(671,355)	(683,029)
	<u>253,588</u>	<u>239,072</u>
<u>Total</u> shareholders' equity		
	<u>\$ 391,836</u>	<u>\$ 394,747</u>
<u>Total</u> liabilities and shareholders' equity		

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

## CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2019	2018	2017
Revenues:			
Products	\$ 185,721	\$ 173,966	\$ 214,522
Services	77,771	92,425	68,234
<u>Total revenues</u>	<u>263,492</u>	<u>266,391</u>	<u>282,756</u>
Cost of revenues:			
Products	122,071	121,147	153,167
Services	45,544	51,207	47,094
<u>Total cost of revenues</u>	<u>167,615</u>	<u>172,354</u>	<u>200,261</u>
Gross profit	<u>95,877</u>	<u>94,037</u>	<u>82,495</u>
Operating expenses:			
Research and development, net	30,184	33,023	28,014
Selling and marketing	21,488	22,706	23,759
General and administrative	18,633	17,024	19,861
<u>Total operating expenses</u>	<u>70,305</u>	<u>72,753</u>	<u>71,634</u>
Operating income	25,572	21,284	10,861
Financial expenses, net	2,617	4,298	4,307
Net income before taxes on income	22,955	16,986	6,554
Taxes on income (tax benefit)	(13,583)	(1,423)	(247)
Net income	<u>\$ 36,538</u>	<u>\$ 18,409</u>	<u>\$ 6,801</u>
Total earnings per share:			
Basic	<u>\$ 0.66</u>	<u>\$ 0.34</u>	<u>\$ 0.12</u>
Diluted	<u>\$ 0.65</u>	<u>\$ 0.33</u>	<u>\$ 0.12</u>
Weighted average number of shares used in computing earnings per share:			
Basic	<u>55,368,703</u>	<u>54,927,272</u>	<u>54,680,822</u>
Diluted	<u>56,030,976</u>	<u>55,752,642</u>	<u>54,851,967</u>

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
Net income	\$ 36,538	\$ 18,409	\$ 6,801
Other comprehensive income (loss):			
Foreign currency translation adjustments	14	(1,845)	(95)
Change in unrealized gain (loss) on hedging instruments, net	653	(1,548)	1,419
Less - reclassification adjustments for net loss (gain) realized and included in income (loss) on hedging instruments, net	(335)	1,059	(1,146)
<u>Total</u> other comprehensive income (loss)	332	(2,334)	178
Comprehensive income	\$ 36,870	\$ 16,075	\$ 6,979

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	<u>Number of Ordinary shares</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Accumulated deficit</u>	<u>Total shareholders' equity</u>
Balance as of January 1, 2017	54,592,667	\$ 2,593	\$ 920,162	\$ (3,224)	\$ (709,705)	\$ 209,826
Effect of adoption of ASU 2016-09	-	-	55	-	(55)	-
Issuance of restricted share units (RSUs)	8,100	*)	-	-	-	*)
Stock-based compensation of options and RSUs	-	-	856	-	-	856
Exercise of stock options	136,500	8	653	-	-	661
Comprehensive income	-	-	-	178	6,801	6,979
Balance as of December 31, 2017	<u>54,737,267</u>	<u>2,601</u>	<u>921,726</u>	<u>(3,046)</u>	<u>(702,959)</u>	<u>218,322</u>
Effect of adoption of ASC 606	-	-	-	-	1,521	1,521
Stock-based compensation of options	-	-	1,006	-	-	1,006
Exercise of stock options	438,840	24	2,124	-	-	2,148
Comprehensive income (loss)	-	-	-	(2,334)	18,409	16,075
Balance as of December 31, 2018	<u>55,176,107</u>	<u>2,625</u>	<u>924,856</u>	<u>(5,380)</u>	<u>(683,029)</u>	<u>239,072</u>
Stock-based compensation of options	-	-	2,135	-	-	2,135
Exercise of stock options	317,151	18	357	-	-	375
Dividend distribution	-	-	-	-	(24,864)	(24,864)
Comprehensive income	-	-	-	332	36,538	36,870
Balance as of December 31, 2019	<u><u>55,493,258</u></u>	<u><u>2,643</u></u>	<u><u>927,348</u></u>	<u><u>(5,048)</u></u>	<u><u>(671,355)</u></u>	<u><u>253,588</u></u>

\*) Represents an amount lower than \$1.

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
<u>Cash flows from operating activities:</u>			
Net income	\$ 36,538	\$ 18,409	\$ 6,801
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,978	13,149	13,140
Capital loss from disposal of property and equipment	461	275	245
Stock-based compensation of options and RSUs	2,135	1,006	856
Accrued severance pay, net	361	57	118
Exchange rate differences on long-term loans	(12)	(34)	186
Deferred income taxes, net	(14,883)	(3,672)	189
Decrease (increase) in trade receivables, net	(1,323)	2,061	(2,512)
Decrease (increase) in contract assets	24,062	11,029	(17,076)
Decrease (increase) in other assets and receivables	1,511	(4,917)	(9,147)
Decrease (increase) in inventories	(8,076)	5,743	(10,763)
Increase (decrease) in trade payables	(3,884)	(8,926)	4,087
Increase (decrease) in accrued expenses	(11,671)	(7,206)	19,633
Increase (decrease) in advances from customers and deferred revenues	1,112	12,433	(20,858)
Decrease in advances from customers held by trustees	-	(1,478)	(6,185)
Increase (decrease) in other liabilities	(2,527)	(5,912)	4,063
Net cash provided by (used in) operating activities	34,782	32,017	(17,223)

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(7,982)	(10,759)	(3,692)
Net cash used in investing activities	<u>(7,982)</u>	<u>(10,759)</u>	<u>(3,692)</u>
<u>Cash flows from financing activities:</u>			
Proceeds from exercise of stock option and RSUs	375	2,148	661
Repayment of long-term loans	(4,447)	(4,469)	(4,673)
Dividend payment	(24,864)	-	-
Net cash used in financing activities	<u>(28,936)</u>	<u>(2,321)</u>	<u>(4,012)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(99)</u>	<u>(1,490)</u>	<u>51</u>
Increase (decrease) in cash, cash equivalents and restricted cash	(2,235)	17,447	(24,876)
Cash, cash equivalents and restricted cash at the beginning of the year	<u>104,204</u>	<u>86,757</u>	<u>111,633</u>
Cash, cash equivalents and restricted cash at the end of the year	<u>\$ 101,969</u>	<u>\$ 104,204</u>	<u>\$ 86,757</u>
<u>Supplementary disclosure of cash flows activities:</u>			
(1) Cash paid during the year for:			
Interest	<u>\$ 509</u>	<u>\$ 303</u>	<u>\$ 906</u>
Income taxes	<u>\$ 1,580</u>	<u>\$ 3,900</u>	<u>\$ 2,410</u>
(2) Non-cash transactions:			
Purchases of property and equipment that were not paid for and reclassification from inventories to property and equipment	<u>\$ 1,449</u>	<u>\$ 2,307</u>	<u>\$ 5,710</u>
Reclassification from property and equipment to inventories	<u>\$ 680</u>	<u>\$ 343</u>	<u>\$ 129</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 includes 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"), block up converters ("BUCs") and Trancievers. 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.

## b. The Company operates in three business segments consisting of Fixed Networks, Mobility Solutions and Terrestrial Infrastructure Projects (see Note 15 for additional information).

## c. On January 29, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Comtech Telecommunications Corp., a Delaware corporation ("Comtech"), pursuant to which, Comtech will acquire 100% of the Company's shares.

The Merger is expected to be completed in the second or third quarters of 2020 (see Note 17 "Subsequent events" for additional information).

## d. The ongoing Coronavirus pandemic that first surfaced in China and is spreading throughout the world has had an adverse effect on our industry and the markets in which we operate (see Note 17 "Subsequent events" for additional information).

## e. The Company has three major customers which accounted for 39% of revenues for the year ended December 31, 2019 (see also Note 15(d)).

## f. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), followed on a consistent basis.

## a. Use of estimates:

The preparation of the 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## b. Functional currency:

The majority of the revenues of Gilat Satellite Networks Ltd. and certain of its subsidiaries are generated in U.S. dollars ("dollar") or linked to the dollar. In addition, a substantial portion of Gilat Satellite Networks Ltd. and certain of its subsidiaries' costs are incurred in dollars. The Company's management believes that the dollar is the primary currency of the economic environment in which Gilat Satellite Networks Ltd. and certain of its subsidiaries operate. Thus, the functional and reporting currency of Gilat Satellite Networks Ltd. and certain of its subsidiaries is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with ASC 830, "Foreign Currency Matters" ("ASC 830"). All transaction gains and losses of the remeasurement of monetary balance sheet items are reflected in the consolidated statements of income as financial income or expenses, as appropriate.

The financial statements of certain foreign subsidiaries, whose functional currency has been determined to be their local currency, have been translated into dollars. Assets and liabilities have been translated using the exchange rates in effect at the balance sheet date. Statements of income amounts have been translated using specific rates. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income.

## c. Principles of consolidation:

The 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

Most of the activity of the subsidiary in Colombia ("Gilat Colombia") consists of operating subsidized projects for the Colombian Ministry of Information Technologies and Communications ("Ministry of ITC") through its "Dirección de Conectividad", or DirCon (formerly known as Compartel Program). Gilat Colombia was awarded a number of projects from the Ministry of ITC, the latest of which was awarded in 2013, and was further extended several times in 2017 and 2018, and completed during 2019.

As required in the bid documents for the Ministry of ITC projects, the Company established trusts (the "Trusts") and entered into governing trust agreements for each project (collectively, the "Trust Agreements"). The Trusts were established for the purpose of holding the network equipment, processing payments to subcontractors, and holding the funds received through the subsidy from the government until they are released in accordance with the terms of the subsidy and paid to Gilat Colombia. The Trusts are a mechanism to allow the Colombian government to review amounts to be paid with the subsidy and verify that such funds are used in accordance with the transaction document and the terms of the subsidy. Gilat Colombia generates revenues both from the subsidy, as well as from the use of the network that it operates.

The Trusts are considered VIEs and Gilat Colombia is identified as the primary beneficiary of the Trusts.

Under ASC 810, the Company performs ongoing reassessments of whether it is the primary beneficiary of the VIE. The assessment of Company's management is that the Company has the power to direct the activities of a VIE that most significantly impact the VIE's activities (it is responsible for establishing and operating the networks), and the obligation to absorb losses of the VIE that could potentially be significant to the VIE and the right to receive benefits from the VIE that could potentially be significant to the VIE's economic performance. As such, the Trusts were consolidated in the financial statements of the Company since their inception.

The cash held by the Trusts is consolidated within the financial statements of the Company and classified as Restricted cash held by trustees.

## d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are not restricted as to withdrawals or use with maturities of three months or less at the date acquired.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

## e. Short-term and long-term restricted cash:

Short-term restricted cash is either invested in bank deposits, which mature within one year, or in short-term highly liquid investments that are restricted to withdrawals or use. As of December 31, 2019, the vast majority of this amount was linked to the dollar. Such deposits are used as collateral for performance and advance payment guarantees to customers, surety bonds and the lease of some of the Company's offices, and bear weighted average interest rates of 1.74% and 2.36% as of December 31, 2019 and 2018, respectively.

Long-term restricted cash is primarily invested in bank deposits, which mature after more than one year. As of December 31, 2019 and 2018, the amount were linked to currencies other than the dollar. It bears annual weighted average interest rates of 6.82% and 6.54% as of December 31, 2019 and 2018, respectively. Such deposits are used as collateral for performance guarantees to customers and the lease of some of the Company's offices.

## f. Restricted cash held by trustees:

As of December 31, 2018, restricted cash held by trustees was invested in a savings bank account linked to the Colombian Peso and was being released based upon performance milestones as stipulated in the agreements with the Ministry of ITC (see Note 2c). As of December 31, 2019, following the completion of the projects in Gilat Colombia, there weren't any restricted cash balances.

## g. Inventories:

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventory write-offs are provided to cover risks arising from slow-moving items, excess inventories, discontinued products, new products introduction and for market prices lower than cost. Any write-off is recognized in the consolidated statements of income as cost of revenues. In addition, if required, the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory.

Cost is determined as follows:

Raw materials, parts and supplies - using the weighted average cost method.

Work in progress and assembled raw materials - represents the cost of manufacturing with the addition of allocable indirect manufacturing costs, using the weighted average cost method.

Finished products - calculated on the basis of raw materials, direct manufacturing costs with the addition of allocable indirect manufacturing costs, using the weighted average cost method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

## h. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	50
Computers, software and electronic equipment	2 - 10
Office furniture and equipment	3 - 15
Vehicles	3 - 7

Leasehold improvements are amortized by the straight-line method over the term of the lease or the estimated useful life of the improvements, whichever is shorter.

Rental income generated from office spaces leased to others is included in general and administrative expenses.

Network equipment leased to others under operating leases is carried at cost less accumulated depreciation and depreciated using the straight-line method over the useful life of the assets of between 2 to 5 years.

## i. Intangible assets:

Intangible assets subject to amortization are initially recognized based on the fair value allocated to them, and subsequently stated at amortized cost. The assets are amortized over their estimated useful lives using the straight-line method over an estimated period during which benefits are expected to be received, in accordance with ASC 350, "Intangible - Goodwill and Other" ("ASC 350") as follows:

	<u>Years</u>
Technology	7.9
Customer relationships	6.8
Marketing rights and patents	12.1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

## j. Impairment of long-lived assets:

The Company's long-lived assets and identifiable intangible assets that are subject to amortization 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.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. Such measurement includes significant estimates. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. However, the carrying amount of a group of assets is not to be reduced below its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In the years ended December 31, 2019 and 2018, no impairments of long-lived assets were recorded.

## k. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, goodwill is not amortized, but rather is subject to an annual impairment test. Goodwill is tested for impairment at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. The Company performs its annual impairment analysis of goodwill in the fourth quarter of the year and whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable.

ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

In the years ended December 31, 2018 and 2017, following an improvement in the Mobility Solutions segment results, the Company performed a qualitative assessment and concluded that it is not more likely than not that the fair value of the reporting units is less than their carrying amounts and accordingly it is unnecessary to perform the two-step quantitative goodwill impairment test.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

For the year ended December 31, 2019, as a period of three years has passed since the last quantitative assessment, the Company performed updated assessment to continue to support its conclusion that no impairment of goodwill is required for any of its reporting units.

## l. Contingencies:

The Company is currently subject to involved in various claims and legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss.

## m. Revenue recognition:

The Company generates revenues mainly from the sale of products (including construction of networks), satellite-based communication networks services and from providing connectivity, internet access and telephony services. The Company sells its products and services to enterprises, government and residential customers under large-scale contracts that utilize both the Company's networks and other networks that the Company installs, mainly based on BOT contracts. These large-scale contracts sometimes involve the installation of thousands of VSATs or massive fiber-optic and microwave networks. Sale of products includes mainly the sale of VSATs, hubs, SSPAs, low-profile antennas, on-the-move/on-the-pause terminals, and construction and installation of large-scale networks based on BOT contracts. Sale of services includes access to and communication via satellites ("space segment"), installation of equipment, telephone services, internet services, consulting, on-line network monitoring, network maintenance and repair services. The Company sells its products primarily through its direct sales force and indirectly through resellers or system integrators. Sales consummated by the Company's sales force and sales to resellers or system integrators are considered sales to end-users.

The Company recognizes revenue when (or as) it satisfies performance obligations by transferring promised products or services to its customers in an amount that reflects the consideration the Company expects to receive. The Company applies the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. See Note 2z for additional information.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP") basis. The Company establishes SSP based on management judgment, considering internal factors such as margin objectives, pricing practices and historical sales.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

Consideration from contracts that is assessed as not being probable of collection is not recognized as revenue until the contract is completed and cash is received. Collectability is re-assessed when there is a significant change in facts or circumstances. The Company's assessment of collectability considers whether it may limit its exposure to credit risk through its right to stop transferring additional service in the event the customer is delinquent as well as certain contract terms such as down payments that reduce its exposure to credit risk.

Revenue from the sale of equipment is recognized at a point in time, once the customer has obtained control over the items purchased. When significant acceptance provisions are included in the arrangement, the Company defers recognition of the revenue until the acceptance occurs. The Company generally does not grant a right of return to its customers. Revenue from periodic services is recognized ratably over the term the services are rendered. Revenue from other services is recognized upon their completion.

Revenues from contracts under which the Company provides significant construction to the customer's specifications (mostly governmental projects) are generally recognized over time because of continuous transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay the Company for costs incurred plus a reasonable profit and take control of any work in process. The Company generally uses the cost-to-cost measure of progress for its contracts because it best depicts the transfer of control to the customer, which occurs as it incurs costs on the contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials and subcontractors' costs and other direct and allocated indirect costs. When estimates of total costs to be incurred exceed total estimates of revenue to be earned on the uncompleted contracts, a provision for the entire loss on the contract is recognized in the period the loss is identified.

Under the typical payment terms of government fixed-price contracts, the customer pays the Company milestones-based payments. Those payments are based on quantifiable measures of performance or on the achievement of specified events or milestones. Because those payments are due upon completion of those milestones, they may result in revenue recognized in excess of billings and are presented as part of contract assets on the balance sheet. In addition, the Company typically receives interim payments as work progresses, although for some contracts, the company may be entitled to receive an advance payment. The Company recognizes a liability for these payments in excess of revenue recognized and present it as liabilities on the balance sheet. The advance payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract.

Amounts recognized as revenue and which the Company has unconditional right to receive are classified as trade receivables on the balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

Deferred revenue and advances from customers are recorded when the Company receives payments from customers before performance obligations have been performed. Deferred revenue is recognized as revenue as (or when) the Company performs the performance obligation under the contract.

For information regarding disaggregated revenues, please refer to Note 15.

The Company pays sales commissions to external sales agents and to sales and marketing personnel based on their attainment of certain predetermined sales goals. Sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions are capitalized and amortized upon recognition of the related revenue, consistently with the transfer to the customer of the goods or services to which they relate. Amortization expenses related to these costs are mostly included in sales and marketing expenses in the accompanying consolidated statements of operations. Amortization expenses during the year ended December 31, 2019 were \$1,643. The capitalized balances related to these costs as of December 31, 2019 and 2018 were \$473 and \$1,286, respectively.

n. Selling and marketing expenses:

Selling and marketing expenses include shipping expenses in the amounts of \$1,309, \$1,303 and \$1,225 for the years ended December 31, 2019, 2018 and 2017, respectively.

Advertising costs are expensed as incurred. Advertising expenses amounted to \$263, \$247 and \$204 for the years ended December 31, 2019, 2018 and 2017, respectively.

o. Warranty costs:

Generally, the Company provides product assurance warranties for periods between twelve to twenty four months at no extra charge that cover the compliance of the products with agreed-upon specifications. A provision is recorded for estimated warranty costs based on the Company's experience. Warranty expenses amounted to \$119, \$591 and \$323 for the years ended December 31, 2019, 2018 and 2017, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

## p. Research and development expenses:

Research and development costs are charged to the consolidated statements of income (loss) as incurred and are presented net of government grants. ASC 985, "Software", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release have been insignificant. Therefore, all research and development costs have been expensed.

## q. Research and development grants:

The Company receives royalty-bearing and non-royalty-bearing grants from the Government of Israel and from other funding sources, for approved research and development projects. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred or milestones achieved as provided by the relevant agreement and included as a deduction from research and development expenses.

Research and development grants deducted from research and development expenses amounted to \$2,024, \$1,426 and \$1,419 for the years ended December 31, 2019, 2018 and 2017, respectively.

## r. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation-Stock Compensation" ("ASC 718"). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period in the Company's consolidated statements of income.

The Company recognizes compensation expenses for the value of its awards, based on the straight-line method over the requisite service period of each of the awards.

Effective as of January 1, 2017, the Company adopted Accounting Standards Update 2016-09, "Compensation-Stock Compensation (Topic 718)" ("ASU 2016-09") on a modified, retrospective basis. ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock - based compensation: to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures as they occur.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified, retrospective basis with a cumulative effect adjustment to retained earnings of \$55 (which increased the accumulated deficit) as of January 1, 2017.

## s. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes" ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more likely than not that a portion or all of the deferred tax assets will not be realized.

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company classifies interest and penalties on income taxes as financial expenses and general and administrative expenses, respectively.

## t. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term and long-term restricted cash, restricted cash held by trustees, trade receivables and contract assets.

The majority of the Company's cash and cash equivalents are invested in dollars with major banks in Israel, the United States and South America. Generally, these cash and cash equivalents may be redeemed upon demand and therefore, management believes that they bear low risk.

The majority of the Company's short-term and long-term restricted cash are invested in dollars with major banks in Israel. The Company is generally entitled to receive the restricted cash based upon actual performance of its projects.

The Company also has restricted cash held by trustees, which is invested in Colombian Pesos with major banks in Colombia. As of December 31, 2019 and 2018, restricted cash held by the trustees amounted to \$0 and \$4,372, respectively. The Company is entitled to receive the restricted cash held by the trustee in stages based upon operational milestones. The cash held in the Trusts is reflected in the Company's consolidated balance sheet as Restricted cash held by trustees.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

Trade receivables and contract assets of the Company are mainly derived from sales to major customers located in North, South and Central America, Europe and Asia. The Company performs ongoing credit evaluations of its customers and obtains letters of credit and bank guarantees for certain receivables. An allowance for doubtful accounts is determined with respect to specific debts that the Company has determined to be doubtful of collection. As of December 31, 2019 and 2018, the Company has recorded a provision for doubtful accounts in the amounts of \$2,327 and \$3,202, respectively.

The Company has recorded a net expense (income) from bad debts in the amount of (\$26), (\$376) and \$2,231 for the years ended December 31, 2019, 2018 and 2017, respectively.

## u. Employee related benefits:

*Severance pay:*

The Company's liability for severance pay for its Israeli employees is calculated pursuant to the Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees whose employment is terminated by the Company or who are otherwise entitled to severance pay in accordance with Israeli law or labor agreements are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its Israeli employees is partly provided for by monthly deposits for insurance policies and the remainder by an accrual. The value of these policies is recorded as an asset in the Company's consolidated balance sheet.

During April and May 2008 (the "transition date"), the Company amended the contracts of most of its Israeli employees so that starting on the transition date, such employees are subject to Section 14 of the Severance Pay Law, 1963 ("Section 14") for severance pay accumulated in periods of employment subsequent to the transition date. In accordance with Section 14, upon termination, the release of the contributed amounts from the fund to the employee will relieve the Company from any further severance liability and no additional payments will be made by the Company to the employee. As a result, the related obligation and amounts deposited on behalf of such obligation are not stated on the consolidated balance sheets, as the Company is legally released from severance obligations to employees once the amounts have been deposited and the Company has no further legal ownership of the amounts deposited.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands

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

The carrying value for the deposited funds for the Company's employees' severance pay for employment periods prior to the transition date include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Israeli Severance Pay Law or labor agreements.

Severance pay expenses for the years ended December 31, 2019, 2018 and 2017, amounted to \$3,162, \$3,138 and \$2,819, respectively.

*401(k) profit sharing plans:*

The Company has a number of savings plans in the United States that qualify under Section 401(k) of the current Internal Revenue Code as a "safe harbor" plan. The Company must make a mandatory contribution to the 401(k) plan to satisfy certain nondiscrimination requirements under the Internal Revenue Code. This mandatory contribution is made to all eligible employees. The contribution costs for all the plans were \$526, \$479 and \$411 for the years ended December 31, 2019, 2018 and 2017, respectively.

## v. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"). Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., "the exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, contract assets, other current assets, trade payables, accrued expenses and other current liabilities approximate their fair value due to the short-term maturities of such instruments.

Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the Company estimates that the carrying value of its long-term debt approximates their fair value.

The Company measured the fair value of the forward contracts in accordance with ASC 820 and classified them as Level 2. Forward contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

## w. Earnings per share:

In accordance with ASC 260, "Earnings per Share", basic earnings per share is computed based on the weighted average number of Ordinary shares outstanding during each period. Diluted earnings per share is computed based on the weighted average number of Ordinary shares outstanding during each period, plus dilutive potential Ordinary shares considered outstanding during the period. The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted earnings per share, as they would have been anti-dilutive, was 1,467,849, 573,552 and 1,627,552 for the years ended December 31, 2019, 2018 and 2017, respectively.

## x. Derivatives and hedging activities:

ASC 815, "Derivatives and Hedging" ("ASC 815"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income (loss). If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. As a result of adopting new accounting guidance discussed in Note 2, "Recently adopted accounting pronouncements," beginning January 1, 2019, gains and losses on the derivatives instruments that are designated and qualify as a cash flow hedge are recorded in accumulated other comprehensive income (loss) and reclassified into in the same accounting period in which the designated forecasted transaction or hedged item affects earnings. Prior to January 1, 2019, cash flow hedge ineffectiveness was separately measured and reported immediately in earnings. Cash flow hedge ineffectiveness was immaterial during 2018 and 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

The Company measured the fair value of the forward contracts in accordance with ASC 820 (classified as Level 2).

The Company entered into forward and cylinder option contracts to hedge against part of the risk of changes in future cash flow from payments of payroll and related expenses denominated in New Israeli Shekels ("NIS").

## y. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income (loss) relate to unrealized gains and losses on forward contracts and foreign currency translation adjustments.

The following tables shows the components of accumulated other comprehensive income (loss), as of December 31, 2019 and 2018:

	<b>December 31, 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	14	653	667
Amounts reclassified from accumulated other comprehensive loss	-	(335)	(335)
Net current-period other comprehensive income	14	318	332
Ending balance	<u>\$ (5,048)</u>	<u>\$ -</u>	<u>\$ (5,048)</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

	<b>December 31, 2018</b>		
	<b>Foreign currency translation adjustments</b>	<b>Unrealized gains (losses) on cash flow hedges</b>	<b>Total</b>
Beginning balance	\$ (3,217)	\$ 171	\$ (3,046)
Other comprehensive loss before reclassifications	(1,845)	(1,548)	(3,393)
Amounts reclassified from accumulated other comprehensive income	-	1,059	1,059
Net current-period other comprehensive loss	(1,845)	(489)	(2,334)
Ending balance	\$ (5,062)	\$ (318)	\$ (5,380)

## z. Recently adopted accounting pronouncements:

- On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method for contracts which were not completed as of January 1, 2018. Under the modified retrospective method, the Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. This adjustment did not have a material impact on the Company's consolidated financial statements. The Standard requires the deferral and amortization of "incremental" costs incurred to obtain a contract. The primary contract acquisition costs for the Company are sales commissions. Under Topic 605, the Company expensed sales commissions as incurred while under Topic 606 such costs are classified as a contract asset and amortized over a period that approximates the timing of revenue recognition on the underlying contracts.

The cumulative effect of the changes made to the consolidated balance sheet as of January 1, 2018 for the adoption of Topic 606-10 was as follows:

	<b>December 31, 2017</b>	<b>Impact of adoption</b>	<b>January 1, 2018</b>
Condensed consolidated balance sheet:			
Other current assets	\$ 19,415	\$ 2,004	\$ 21,419
Accrued expenses	\$ 75,270	\$ 483	\$ 75,753
Accumulated deficit	\$ (702,959)	\$ 1,521	\$ (701,438)

Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Revenue Recognition ("Topic 605").

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

2. 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 will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. 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".

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands

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

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 9 for further information on leases.

3. The Company adopted Accounting Standards Update ("ASU") No. 2017- 12, "Derivatives and Hedging" (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amended the eligibility criteria for hedged items and transactions to expand an entity's ability to hedge nonfinancial and financial risk components. The new guidance eliminates the requirement to separately measure and present hedge ineffectiveness and aligns the presentation of hedge gains and losses with the underlying hedge item. The new guidance also simplifies the hedge documentation and hedge effectiveness assessment requirements. The amended presentation and disclosure requirements were adopted on a prospective basis, while any amendments to cash flow and net investment hedge relationships which existed on the date of adoption were applied on a "modified retrospective" basis, meaning a cumulative effect adjustment to the opening balance of retained earnings as of the beginning of the year of adoption. The new guidance was effective for the Company on January 1, 2019 and the adoption did not have a material impact on the Company's consolidated financial statements..
- aa. Recently issued accounting pronouncements:
1. In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13 (ASU 2016-13) "Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The Company does not expect that this new guidance will have a material impact on the Company's consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

2. In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-04 (ASU 2017-04) “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019. The Company does not expect that this new guidance will have a material impact on the Company’s consolidated financial statements.
3. In December 2019, the FASB issued Accounting Standards Update (“ASU”) No. 2019-12, Income Taxes (Topic 740): “Simplifying the Accounting for Income Taxes” (ASU 2019-12), which simplifies the accounting for income taxes. This guidance will be effective for us in the first quarter of 2021 on a prospective basis, and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

## NOTE 3:- INVENTORIES

- a. Inventories are comprised of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Raw materials, parts and supplies	\$ 6,638	\$ 5,885
Work in progress and assembled raw materials	15,409	10,548
Finished products	5,156	4,676
	<u>\$ 27,203</u>	<u>\$ 21,109</u>

- b. Inventory write-offs amounted to \$2,624, \$6,354 and \$3,270 for the years ended December 31, 2019, 2018 and 2017, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 4:- PROPERTY AND EQUIPMENT, NET

- a. Property and equipment, net consisted of the following:

	December 31,	
	<u>2019</u>	<u>2018</u>
Cost:		
Buildings and land	\$ 91,823	\$ 92,025
Computers, software and electronic equipment	51,745	50,390
Network equipment	27,837	40,502
Office furniture and equipment	3,665	5,317
Vehicles	240	324
Leasehold improvements	<u>3,674</u>	<u>3,556</u>
	178,984	192,114
Accumulated depreciation	<u>96,400</u>	<u>107,711</u>
Depreciated cost	<u>\$ 82,584</u>	<u>\$ 84,403</u>

- \*) The Company recorded a reduction of \$18,718, \$732 and \$46,051 to the cost and accumulated depreciation of fully depreciated property plant and equipment that are no longer in use for the years ended December 31, 2019, 2018 and 2017, respectively.
- b. Depreciation expenses amounted to \$10,067, \$9,874 and \$7,465 in the years ended December 31, 2019, 2018 and 2017, respectively.
- c. During the years ended December 31, 2019, 2018 and 2017, the Company recognized capital losses of \$461, \$275 and \$245, respectively, with respect to disposal of abandoned assets primarily attributed to office and furniture group.
- d. The Company leases part of its buildings as offices spaces to others. The gross income generated from such leases amounted to approximately \$5,770, \$6,150 and \$5,900 in the years ended December 31, 2019, 2018 and 2017, respectively. These amounts do not include the corresponding offsetting expenses related to this income.
- e. As for pledges and securities, see also Note 13c.

## NOTE 5:- DEFERRED REVENUE

Deferred revenue as of December 31, 2019 and 2018 was \$7,972 and \$8,658, respectively, and primarily relates to revenue that is recognized over time for service contracts. The changes in balance of deferred revenues are related to the satisfaction or partial satisfaction of these contracts. Approximately \$6,785 of the December 31, 2018 balance was recognized as revenue during the year ended December 31, 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 5:- DEFERRED REVENUE (cont.)

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.

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 13-15 years), principally relate to contracts with a duration of less than one year, 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.

## NOTE 6:- INTANGIBLE ASSETS, NET

a. Intangible assets, net consisted of the following:

	December 31,	
	2019	2018
Original amounts:		
Technology	\$ 42,504	\$ 42,504
Customer relationships	4,466	4,466
Marketing rights and patents	3,421	3,421
	<u>50,391</u>	<u>50,391</u>
Accumulated amortization:		
Technology	42,002	41,281
Customer relationships	4,466	4,466
Marketing rights and patents	2,400	2,210
	<u>48,868</u>	<u>47,957</u>
	<u>\$ 1,523</u>	<u>\$ 2,434</u>

b. Amortization expenses amounted to \$911, \$3,275 and \$5,675 for the years ended December 31, 2019, 2018 and 2017, respectively.

c. Estimated amortization expenses for the following years is as follows:

Year ending December 31,	
2020	\$ 441
2021	431
2022	321
2023	330
	<u>\$ 1,523</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 7:- GOODWILL

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Goodwill *)	\$ 105,647	\$ 105,647
Accumulated impairment losses	<u>(62,179)</u>	<u>(62,179)</u>
	<u>\$ 43,468</u>	<u>\$ 43,468</u>

\*) The carrying amount of the goodwill is associated with the Mobility Solutions segment.

## NOTE 8:- COMMITMENTS AND CONTINGENCIES

- a. Commitments with respect to space segment services:

The Company provides its customers with space segment capacity services, which are purchased from third parties. Future minimum payments due for space segment services to be rendered subsequent to December 31, 2019, are as follows:

<u>Year ending December 31,</u>	
2020	\$ 8,402
2021	2,877
2022	<u>1,215</u>
	<u>\$ 12,494</u>

Space segment services expenses during the years ended December 31, 2019, 2018 and 2017 were \$9,845, \$12,771 and \$11,184, respectively.

- b. In 2019 and 2018, the Company's primary material purchase commitments were with inventory suppliers. The Company's material inventory purchase commitments are based on purchase orders, or on outstanding agreements with some of the Company's suppliers of inventory. As of December 31, 2019 and 2018, the Company's major outstanding inventory purchase commitments amounted to \$24,939 and \$18,418, respectively, all of which were orders placed or commitments made in the ordinary course of its business. As of December 31, 2019 and 2018, \$12,718 and \$6,939, respectively, of these orders and commitments, were from suppliers which can be considered sole or limited in number. In addition, for the year ended December 31, 2019, 2018 and 2017 the Company recorded a loss for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory in the amount of \$1,016, \$1,448 and \$0, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 8:- COMMITMENTS AND CONTINGENCIES (Cont.)

## c. Royalty commitments:

1. The Company is committed to pay royalties to the Israel Innovation Authority ("IIA"), formerly known as the Office of the Chief Scientist of the Ministry of Economy of the Government of Israel on proceeds from sales of products resulting from the research and development projects in which the IIA participated with royalty bearing grants. In the event that development of a specific product in which the IIA participated is successful, the Company will be obligated to repay the grants through royalty payments at the rate of 3% to 5% based on the sales of the Company, up to 100% of the grants received linked to the dollar. Grants are subject to interest at a rate equal to the 12 month LIBOR rate. The obligation to pay these royalties is contingent upon actual sales of the products and, in the absence of such sales, no payment is required.

As of December 31, 2019, the Company had a contingent liability to pay royalties in the amount of approximately \$1,428.

The Company paid royalties in the amount of \$68 and \$20 during the years ended December 31, 2019 and 2018, respectively. The Company did not pay or accrue any amounts for such royalties during the year ended December 31, 2017.

2. Research and development projects undertaken by the Company were partially financed by the Binational Industrial Research and Development Foundation ("BIRD Foundation"). The Company is committed to pay royalties to the BIRD Foundation at a rate of 5% of sales proceeds generating from projects for which the BIRD Foundation provided funding up to 150% of the sum financed by the BIRD Foundation.

The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

As of December 31, 2019, the Company had a contingent liability to pay royalties in the amount of approximately \$303.

The Company did not pay or accrue any amounts for such royalties during the years ended December 31, 2019, 2018 and 2017.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 8:- COMMITMENTS AND CONTINGENCIES (Cont.)

## d. Litigation:

1. In 2003, the Brazilian tax authority filed a claim against the Company's inactive subsidiary in Brazil, SPC International Ltda, for the payment of taxes allegedly due from the subsidiary. After numerous hearings and appeals at various appellate levels in Brazil, the Supreme Court ruled against the subsidiary in final non-appealable decisions published in June 2017. As of December 31, 2019, the total amount of this claim, including interest, penalties and legal fees is approximately \$8,742, of which approximately \$1,002 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 and inclusion of any additional co-obligors in the tax foreclosure certificate are barred due to statute of limitation and that the foreclosure procedures cannot legally be redirected to other group entities and managers who were not cited in the foreclosure certificate due to statute of limitation. Accordingly, the Company believes that the chances that such redirection will lead to a loss recognition are remote.
2. In 2014, the Company's Peruvian subsidiary, Gilat To Home Peru ("GTH Peru"), initiated arbitration proceedings in Lima against the Ministry of Transport and Communications of Peru ("MTC"), and PRONATEL. The arbitration was related to the PRONATEL projects awarded to the Company in 2000-2001. Under these projects, GTH Peru provided fixed public telephony services in rural areas of Peru. The subsidiary's main claim was related to damages caused by the promotion of mobile telephony in such areas by the Peruvian government in the years 2011-2015. In June 2018, the arbitration tribunal issued an arbitration award ordering MTC and PRONATEL to pay the subsidiary approximately \$13,500. MTC applied to the Superior Court in Lima to declare such award null and void. In July 2019, the Superior Court rejected the annulment action. MTC filed a protective constitutional action against such ruling. In September 2019, the 11<sup>th</sup> Constitutional Court in Lima rejected MTC's action declaring it inadmissible. In October 2019, MTC submitted an appeal against this resolution. In parallel, in July 2019, the Company initiated proceedings at the 17<sup>th</sup> Civil Chamber specialized in Commercial Matters of the Superior Court of Justice of Lima for enforcement of the arbitration award. Based on the advice of counsel, such proceedings are expected to continue for 5 years or more. In August 2019 the said Court rejected MTC's objection to the enforcement process, and hence, the enforcement process continues. In October 2019, the Company's subsidiary initiated additional arbitration proceedings against MTC and PRONATEL based on similar grounds for the years 2015-2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 8:- COMMITMENTS AND CONTINGENCIES (Cont.)

3. In October 2017, the Temporary Union UGC-FUSA, a former subcontractor that was hired in connection with the Kioskos Project in Colombia, initiated an arbitration proceeding against the Company's local subsidiary for breach of contract. The amount of the claim is approximately \$6,300. In July 2018, the subsidiary filed its response and a counterclaim against UGC-Fusa and its insurer, Seguros del Estado. In June 2019, the arbitration was concluded by means of a settlement agreement under which the Company's subsidiary paid UGC-FUSA an amount of \$400. The Company had an accrual which it reversed and as a consequence recognized \$3,260 as reduction of costs in cost of revenues.
  4. In 2018, the subsidiary in Peru, won a government bid for two additional regional projects in Amazonas and Ica regions in Peru for PRONATEL with a value of approximately \$154,000. GMC Engineering Solutions and SATEL Comunicaciones y Datos, two of the three entities comprising the losing bidder consortium, applied to the superior court in Lima to cancel the bid and obtained a preliminary injunction against the award. Although the lawsuit did not name the Company's subsidiary as a defendant, the subsidiary was served as an interested third party in the process and filed its objection and defenses. Currently, following PRONATEL's request, the Company's subsidiary continues performing these projects. Based on the advice of its legal counsel, the Company believes that the chances of success of the proceedings seeking to cancel the bid are remote.
  5. 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 may be subject to 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.
- e. Pledges and securities, see Note 13c.
- f. Guarantees:

The Company guarantees its performance to certain customers through bank guarantees, surety bonds from insurance companies and corporate guarantees. Guarantees are often required for the Company's performance during the installation and operational periods. The guarantees typically expire when certain operational milestones are met.

As of December 31, 2019, the aggregate amount of bank guarantees and surety bonds from insurance companies outstanding in order to secure the Company's various obligations was \$106,037, including an aggregate of \$102,687 on behalf of its subsidiaries in Peru. In order to secure these guarantees the Company provided a floating charge on its assets as well as other pledges, including a fixed pledge, on certain assets and property. In addition, the Company has \$27,191 of restricted cash to secure these guarantees.

In accordance with ASC 460, "Guarantees" ("ASC 460"), as the guarantees above are performance guarantees for the Company's own performance, such guarantees are excluded from the scope of ASC 460. The Company has not recorded any liability for such amounts, since the Company expects that its performance will be acceptable. To date, no guarantees have ever been exercised against the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 9:- LEASES

The Company's subsidiaries entered into various non-cancelable operating lease agreements for certain of their offices and facilities, expiring between 2020 and 2027. Components of operating lease expense were as follows:

	<b>Year ended December 31, 2019</b>
Operating lease cost*	\$ 2,196
Short- term lease cost	272
Total lease costs	<u>\$ 2,468</u>

\*) Operating lease cost were paid in cash during the year ended December 31,2019

**Supplemental information related to operating leases was as follows:**

	<b>Year ended December 31, 2019</b>
New operating lease assets obtained in exchange for operating lease liabilities	<u>\$ 1,469</u>

As of December 31, 2019, our operating leases had a weighted average remaining lease term of 3 years and a weighted average discount rate of 4.5%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 9:- LEASES (Cont.)

Future lease payments under operating leases as of December 31, 2019 were as follows:

2020	\$ 2,019
2021	1,775
2022	1,269
2023	517
Thereafter	16
Total future lease payments	<u>5,596</u>
Less imputed interest	<u>(361)</u>
Total lease liability balance	<u>\$ 5,235</u>

As of December 31, 2019, we have entered into a new lease that has not yet commenced with future lease payments of \$3,874, excluding extension options, that is not yet recorded on our consolidated balance sheets. This lease will come into effect in 2020 with a non-cancelable lease term of 5 years.

Total lease costs during the year ended December 31, 2018 were \$2,578.

## NOTE 10:- DERIVATIVE INSTRUMENTS

The following table details the fair value of derivative instruments in the consolidated balance sheets:

	<b>Fair value of derivative instruments</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Derivative:		
Foreign exchange forward contracts / options (1) Other current assets (liabilities)	-	\$ (318)

- (1) To protect against changes in value of forecasted foreign currency cash flows resulting from salaries and related payments that are denominated in NIS, the Company has entered into foreign currency forward contracts. These contracts were designated as cash flow hedges, as defined by ASC 815, as amended, and are considered highly effective as hedges of these expenses. As of December 31, 2019 there were no outstanding forward contracts.

During the years ended December 31, 2019, 2018 and 2017, the Company recognized net income 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 amounted to \$(335), \$(1,056) and \$1,114 in the years ended December 31, 2019, 2018 and 2017, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- DERIVATIVE INSTRUMENTS (cont.)

The ineffective portion of the hedged instrument which was recorded during the years ended December 31, 2019, 2018 and 2017, was immaterial and has been recorded as financial income (expenses). As of December 31, 2019 the Company had no outstanding forward contracts. As of December 31, 2018, the Company had outstanding forward contracts in the notional amount of \$27,153.

## NOTE 11:- 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:

*Description of 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, RSUs awards and other stock-based awards. During the years commencing in 2010 and through December 31, 2019, the Company's Board of Directors approved, in the aggregate, an increase of 6,015,500 shares to the number of shares available for grant under the 2008 Plan, bringing the total number of shares available for grant to 7,015,500. As of December 31, 2019, an aggregate of 77,888 shares are still available for future grants under the 2008 Plan.

Options granted under the 2008 Plan vest quarterly over two to four years or 50% at the second anniversary and 25% at the third and fourth anniversary. The options expire after six, seven or ten years from the date of grant. Any options, which are forfeited or canceled before expiration of the 2008 Plan, become available for future grants.

All options granted by the Company on or before March 23, 2017 that are unvested and remain outstanding shall become fully vested upon change of control. In addition, options granted to several management members after such date that are unvested and remain outstanding shall also become fully vested upon change of Control.

In February 2019, the 2008 Plan was amended to include a dividend adjustment, whereby unless otherwise is resolved by the Board of Directors, the exercise price of each outstanding share option (whether vested or not) (as such term is defined in the 2008 Plan), shall be reduced by an amount equal to the cash dividend per share distributed on the applicable distribution date. The amendment applied to the dividend distributed by the Company's Board of Directors in April 2019, as described below. In addition, the amendment stipulates that the administrating committee may apply a "net exercise" payment method, whereby a certain number of ordinary shares to which a participant is entitled, may be withheld according to the formula set forth in the amendment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

*Valuation assumptions:*

The Company selected the Black-Scholes-Merton option-pricing model as the most appropriate fair value method for its stock options awards. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements. The expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends. In April 2019 the Company distributed a cash dividend in the amount of \$24,864 or \$0.45 per share for which a protective adjustment was applied to the outstanding equity awards. This was the first time the Company paid 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.

*Options granted to employees:*

The fair value of the Company's stock options granted to employees for the years ended December 31, 2019, 2018 and 2017 was estimated using the following weighted average assumptions:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Risk free interest	1.35%-2.51%	2.48%-2.82%	1.66%-2.00%
Dividend yields	0%	0%	0%
Volatility	33.35%-34.32%	33%	33%
Expected term (in years)	4.22-4.26	4.3-4.39	4.52

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

A summary of employee option balances under the 2008 Plan as of December 31, 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	3.7	\$ 9,087
Granted	1,112,500	\$ 9.3		
Exercised	(676,930)	\$ 5.1		
Forfeited	<u>(150,000)</u>	\$ 7.3		
Outstanding at December 31, 2019	<u>3,168,980</u>	<u>\$ 6.9</u>	<u>3.8</u>	<u>\$ 4,795</u>
Exercisable at December 31, 2019	<u>1,094,772</u>	<u>\$ 4.6</u>	<u>2.3</u>	<u>\$ 3,590</u>

The weighted-average grant-date fair value of options granted to employees during the year ended December 31, 2019 was \$2.6. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on the last trading day of the year 2019 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019. These amounts change based on the fair market value of the Company's stock. Total intrinsic value of options exercised for the year ended December 31, 2019 was \$2,350.

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 \$803 was recorded during the year ended December 31, 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

The outstanding and exercisable options granted to employees under the 2008 Plan as of December 31, 2019, have been separated into ranges of exercise price as follows:

<b>Ranges of exercise price</b>	<b>Options outstanding as of December 31, 2019</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price</b>	<b>Options exercisable as of December 31, 2019</b>	<b>Weighted average exercise price of exercisable options</b>
\$3.32-4.95	1,067,184	2.2	\$ 4.5	925,726	4.5
\$5.05-7.41	831,796	3.8	\$ 6.5	169,046	5.4
\$7.73-9.51	1,270,000	5.2	\$ 9.2	-	
	<u>3,168,980</u>	3.8	\$ 6.9	<u>1,094,772</u>	4.6

*Additional stock-based compensation data:*

As of December 31, 2019, there was \$3,677 of unrecognized compensation costs related to non-vested stock-based compensation arrangements granted to employees under the 2008 Plan. The cost related to employees is expected to be recognized over a weighted-average period of 3 years.

## c. Dividends:

- In the event that cash dividends are declared by the Company, such dividends will be declared and paid in Israeli currency. Under current Israeli regulations, any cash dividend paid in Israeli currency in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency, may be freely repatriated in such non-Israeli currency, at the exchange rate prevailing at the time of repatriation.
- In April 2019 the Company distributed a cash dividend for the first time, in the amount of \$24,864 or \$0.45 per share. 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.
- Pursuant to the terms of a loan from a bank (see also Note 13c), the Company is restricted from paying cash dividends to its shareholders without initial approval from the bank; which was received for the April 2019 dividend.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates:

Generally, income of Israeli companies is subject to corporate tax. The corporate tax rate in Israel is 23% in 2019 and 2018, compared with 24% in 2017.

2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

The Company has been granted an "Approved Enterprise" status, under the Law, for nine investment programs in the alternative program, by the Israeli Government.

Certain production facilities of the Company have been granted 'Benefitted Enterprise' status under the provision of the Law.

The Company was eligible under the terms of minimum qualifying investment elected 2011 as the Year of Election as defined in the law.

Income derived from Benefitted Enterprise is tax exempt for a period of two years out of the period of benefits. Based on the percentage of foreign shareholding in the Company, income derived during the remaining years of benefits is taxable at the rate of 10%-25%.

The period of benefits of the Benefitted Enterprises under the 2011 election will expire in 2023. As of December 31, 2019, the Company did not generate income from the Benefitted Enterprises.

In the event of distribution of dividends from the above mentioned tax exempt income, the amount distributed would be taxed at a corporate tax rate of 10% to 25%, depending on the level of foreign investment in the Company.

Income from sources other than a "Benefitted Enterprise" during the benefit period is subject to tax at the regular corporate tax rate (24% in 2017 and 23% in 2018 and 2019).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

On January 1, 2011, new legislation that constitutes a major amendment to the Law was enacted (the "Amendment Legislation"). Under the Amendment Legislation, a uniform rate of corporate tax would apply to all qualified income of certain industrial companies, as opposed to the current law's incentives that are limited to income from "Benefitted Enterprises" during their benefits period. According to the Amendment Legislation, the applicable tax rate for 2014 and onwards is set at 9% in geographical areas in Israel designated as Development Zone A and 16% elsewhere in Israel applicable to the company. The profits of these Industrial Companies would be freely distributable as dividends, subject to a 20% withholding tax (or lower, under an applicable tax treaty). The Company is not located in Development Zone A.

Under the transitory provisions of the Amendment Legislation, the Company may elect whether to irrevocably implement the new law in its Israeli company while waiving benefits provided under the current law or keep implementing the current law during the next years. Changing from the current law to the new law is permissible at any stage.

Amendment from December 2016 prescribes special tax tracks for technological enterprises. The new tax tracks under the Amendment are as follows:

Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in Development Zone A- a tax rate of 7.5%).

Special technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence. The Company has not made any provisions relating to undistributed earnings of the Company's foreign subsidiaries since the Company has no current plans to distribute such earnings. If earnings are distributed to Israel in the form of dividends or otherwise, the Company may be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. As of December 31, 2019, the amount of undistributed earnings of non-Israeli subsidiaries, which is considered indefinitely reinvested, was \$3,229 with a corresponding unrecognized deferred tax liability of \$437.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

In December 2017, the U.S. enacted significant tax reform through the U.S. Tax Cuts & Jobs Acts ("TCJA"). The TCJA enacted significant changes affecting the year ended December 31, 2017, including, but not limited to, (1) reducing the U.S. federal corporate income tax rate from 35% to 21% effective 2018, and (2) imposing a one-time Transition Tax on certain unrepatriated earnings of foreign subsidiaries of U.S. companies that had not been previously taxed in the U.S.

The TCJA also established new tax provisions affecting 2018, including, but not limited to, (1) creating a new provision designed to tax global intangible low-tax income ("GILTI"); (2) generally eliminating U.S. federal taxes on dividends from foreign subsidiaries; (3) eliminating the corporate alternative minimum tax ("AMT"); (4) creating the base erosion anti-abuse tax ("BEAT"); (5) establishing a deduction for foreign derived intangible income ("FDII"); (6) repealing the domestic production activity deduction; and (7) establishing new limitations on deductible interest expense and certain executive compensation.

## c. Carryforward tax losses and credits:

As of December 31, 2019, the Company had operating loss carry forwards for Israeli income tax purposes of approximately \$89,736 which may be offset indefinitely against future taxable income.

As of December 31, 2019, the Company's U.S. subsidiary had approximately \$10,614 of carryforward tax losses for state tax purposes. The U.S subsidiary had R&D credits carryforwards for federal tax purposes of approximately \$3,200 and for state tax purposes of approximately \$2,600.

The Company has carryforward tax losses relating to other subsidiaries in Europe and Latin America of approximately \$44,870 (which can be utilized within 9 years) and \$33,620 (\$24,611 can be utilized within 4 years and \$9,009 can be utilized indefinitely), as of December 31, 2019, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

## d. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
1. Provided in respect of the following:		
Carryforward tax losses and credits *)	\$ 39,719	\$ 41,561
Property, equipment and intangibles	1,466	904
Deferred revenues	1,237	823
Research and development costs	269	804
Other temporary differences	<u>5,775</u>	<u>7,202</u>
Gross deferred tax assets	<u>48,466</u>	<u>51,294</u>
Valuation allowance	<u>(26,693)</u>	<u>(40,943)</u>
Net deferred tax assets	<u>21,773</u>	<u>10,351</u>
Gross deferred tax liabilities		
Property, equipment and intangibles	(3,343)	(3,208)
Subsidy income	-	(3,574)
Other temporary differences	<u>-</u>	<u>(22)</u>
Gross deferred tax liabilities	<u>(3,343)</u>	<u>(6,804)</u>
Net deferred tax assets	<u>\$ 18,430</u>	<u>\$ 3,547</u>

\*) The amounts are shown after reduction for unrecognized tax benefits of \$2,855 and \$1,989 as of December 31, 2019 and 2018, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
2. Deferred taxes are included in the consolidated balance sheets, as follows:		
Long term assets	\$ 18,455	\$ 4,127
Long term liabilities	\$ (25)	\$ (580)
3. The Peruvian government awarded the Company's subsidiary in Peru ("the Subsidiary") the Regional PRONATEL Projects under six separate bids for the construction of fiber and wireless networks, operation of the networks for a defined period and their transfer to the government. The income derived from the construction of the project is an exempt subsidy, and therefore a significant uncertainty arises about the Subsidiary's eligibility to deduct certain construction costs incurred in generating the exempt income against future taxable income. Accordingly, as of December 31, 2019 and 2018, the Company did not record deferred income taxes to reflect the total net tax effects of the potential temporary differences.		
4. As of December 31, 2019, the Company decreased the valuation allowance by \$14,250, resulting mainly from changes in temporary differences relating to carryforward tax losses. The Company provided valuation allowance for a portion of the deferred tax regarding the carryforwards losses and other temporary differences that management believes are not expected to be realized in the foreseeable future.		
During the year ended December 31, 2019, the Company released valuation allowance against the deferred tax assets primarily related to carryforward tax losses in Israel.		
5. The functional and reporting currency of the Company and certain of its subsidiaries is the dollar. The difference between the annual changes in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with ASC 740, the Company has not provided deferred income taxes on the difference between the functional currency and the tax basis of assets and liabilities.		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

- e. Reconciling items between the statutory tax rate of the Company and the actual taxes on income (tax benefit):

	Year ended December 31,		
	2019	2018	2017
Income before taxes on income from continuing operations, as reported in the consolidated statements of income	\$ 22,955	\$ 16,986	\$ 6,554
Statutory tax rate	23.0%	23.0%	24.0%
Theoretical taxes on income	5,279	\$ 3,907	\$ 1,573
Currency differences	(1,908)	3,089	(3,225)
Tax adjustment in respect of different tax rates and "Benefitted Enterprise" status	241	345	2,849
Changes in valuation allowance	(14,250)	(3,939)	(3,343)
Loss from liquidation of subsidiaries *)	-	(8,930)	-
Expiration of carryforward tax losses	923	-	622
Exempt subsidy loss (income)	(3,813)	394	(2,646)
U.S. Tax Cuts and Jobs Acts effect	-	56	2,138
Nondeductible expenses and other differences	(55)	3,655	1,785
	\$ (13,583)	\$ (1,423)	\$ (247)

- \*) In 2018 the Company's Dutch subsidiary liquidated some of its subsidiaries and consequently recognized losses for tax purposes. These losses can be offset from taxable income in future periods under the tax regulations in the Netherlands. The Company does not expect these losses to be realized in the foreseeable future and respectively provided a full valuation allowance.

- f. Taxes on income (tax benefit) included in the consolidated statements of income:

	Year ended December 31,		
	2019	2018	2017
Current	\$ 1,300	\$ 2,249	\$ (436)
Deferred	(14,883)	(3,672)	189
	\$ (13,583)	\$ (1,423)	\$ (247)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

	Year ended December 31,		
	2019	2018	2017
Domestic	\$ (14,472)	\$ 610	\$ 768
Foreign	889	(2,033)	(1,015)
	<u>\$ (13,583)</u>	<u>\$ (1,423)</u>	<u>\$ (247)</u>

g. Income before taxes on income (tax benefit) from operations:

	Year ended December 31,		
	2019	2018	2017
Domestic	\$ 12,851	\$ 6,596	\$ 1,289
Foreign	10,104	10,390	5,265
	<u>\$ 22,955</u>	<u>\$ 16,986</u>	<u>\$ 6,554</u>

h. Unrecognized tax benefits:

A reconciliation of the beginning and ending gross amount of unrecognized tax benefits is as follows:

	December 31,	
	2019	2018
Balance at beginning of year	\$ 2,234	\$ 129
Additions for prior years' tax position	(19)	1,809
Additions for current years' tax position	975	296
Balance at the end of year *)	<u>\$ 3,190</u>	<u>\$ 2,234</u>

\*) The amounts for the years ended December 31, 2019 and 2018 includes \$2,855 and \$1,989, respectively, of unrecognized tax benefits which are presented as a reduction from deferred tax assets, see Note 12d.

The unrecognized tax benefits include accrued penalties and interest of \$295 and \$193 as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Company recorded an expense of \$102 accrued on the unrecognized tax benefits and \$86, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 12:- TAXES ON INCOME (Cont.)

The Company and its subsidiaries file income tax returns in Israel and in other jurisdictions of its subsidiaries. The Company's tax assessments through 2014 are considered final. As of December 31, 2019, the tax returns of the Company and its main subsidiaries are still subject to audits by the tax authorities for the tax years 2014 through 2018.

## NOTE 13:- SUPPLEMENTARY CONSOLIDATED BALANCE SHEET INFORMATION

## a. Other current assets:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Governmental authorities	\$ 8,388	\$ 6,264
Prepaid expenses	6,060	6,612
Deferred charges	2,868	9,446
Advance payments to suppliers	3,912	2,651
Other	1,779	1,049
	<u>\$ 23,007</u>	<u>\$ 26,022</u>

## b. Other current liabilities:

Payroll and related employee accruals	\$ 11,500	\$ 13,229
Derivative instruments	-	320
Governmental authorities	651	506
Other	110	533
	<u>\$ 12,261</u>	<u>\$ 14,588</u>

## c. Long-term loans:

	<b>Linkage</b>	<b>Interest rate for</b>		<b>Maturity</b>	<b>December 31,</b>	
		<b>2019</b>	<b>2018</b>		<b>2019</b>	<b>2018</b>
		%				
Loans from banks:						
(a)	U.S. dollars	4.77	4.77	2021	\$ 8,000	\$ 12,000
(b)	Euro	+2.75	+2.75	2020	<u>96</u>	<u>556</u>
					8,096	12,556
Less - current maturities					<u>4,096</u>	<u>4,458</u>
					<u>\$ 4,000</u>	<u>\$ 8,098</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 13:- SUPPLEMENTARY CONSOLIDATED BALANCE SHEET INFORMATION (Cont.)

- (a) The Company entered into a loan agreement with an Israeli bank secured by a floating charge on the assets of the Company, and which is further secured by a fixed pledge (mortgage) on the Company's real estate in Israel. In addition, there are financial covenants associated with the loan. As of December 31, 2019 the Company is in compliance with these covenants.
- (b) A Dutch subsidiary of the Company entered into a mortgage and loan agreement with a German bank. The amount of the mortgage is collateralized by the subsidiary's facilities in Germany.

Long-term debt maturities for loans after December 31, 2019, are as follows:

**Year ending December 31,**

2021	<u>4,000</u>
	<u>\$ 4,000</u>

Interest expenses on the long-term loans amounted to \$395, \$614 and \$822 for the years ended December 31, 2019, 2018 and 2017, respectively.

- d. Other long-term liabilities:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Long-term deferred taxes	\$ 25	\$ 580
Other	<u>83</u>	<u>-</u>
	<u>\$ 108</u>	<u>\$ 580</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SELECTED CONSOLIDATED STATEMENTS OF INCOME (LOSS) DATA

## a. Financial expenses, net:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income:			
Interest on cash equivalents, bank deposits and restricted cash	\$ 1,472	\$ 981	\$ 447
Other	<u>18</u>	<u>29</u>	<u>355</u>
	<u>1,490</u>	<u>1,010</u>	<u>802</u>
Expenses:			
Interest with respect to bank credit, loans and other	395	614	844
Exchange rate differences, net	103	1,074	226
Bank charges including guarantees	3,552	3,560	3,857
Other	<u>57</u>	<u>60</u>	<u>182</u>
	<u>4,107</u>	<u>5,308</u>	<u>5,109</u>
Total financial expenses, net	<u>\$ 2,617</u>	<u>\$ 4,298</u>	<u>\$ 4,307</u>

## b. Earnings per share:

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

## 1. Numerator:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Numerator for basic and diluted earnings per share -			
Net income available to holders of Ordinary shares	<u>\$ 36,538</u>	<u>\$ 18,409</u>	<u>\$ 6,801</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 14:- SELECTED CONSOLIDATED STATEMENTS OF INCOME (LOSS) DATA (Cont.)

2. Denominator (number of shares in thousands):

	Year ended December 31,		
	2019	2018	2017
Denominator for basic net loss per share -			
Weighted average number of shares	55,369	54,927	54,681
Add-employee stock options	662	826	171
Denominator for diluted net earnings per share - adjusted weighted average shares assuming exercise of options	56,031	55,753	54,852

## NOTE 15:- 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 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 and large enterprises, consumers and governments worldwide. In addition, it includes the Company's network operation in Peru.

*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 and microwave network in Peru.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 15:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)

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.
2. The above changes in the Company's reportable segments had no effect on the goodwill assignment among the divisions.
3. Financial data relating to reportable operating segments:

	Year ended December 31, 2019			
	Fixed Networks	Mobility Solutions	Terrestrial Infrastructure Projects	Total
Revenues	\$ 127,265	\$ 104,665	\$ 31,562	\$ 263,492
Cost of revenues	80,038	53,263	34,314	167,615
Gross profit (loss)	47,227	51,402	(2,752)	95,877
Research and development, net	10,919	19,265	-	30,184
Selling and marketing	14,955	6,485	48	21,488
General and administrative	11,363	5,948	1,322	18,633
Operating income (loss)	9,990	19,704	(4,122)	25,572
Financial expenses, net				2,617
Income before taxes				22,955
Taxes on income (benefit)				(13,583)
Net income				\$ 36,538
Depreciation and amortization expenses	\$ 7,032	\$ 3,871	\$ 75	\$ 10,978

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 15:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)

	Year ended December 31, 2018			
	Fixed Networks	Mobility Solutions	Terrestrial Infrastructure Projects	Total
Revenues	\$ 144,208	\$ 97,180	\$ 25,003	\$ 266,391
Cost of revenues	93,745	47,995	30,614	172,354
Gross profit (loss)	50,463	49,185	(5,611)	94,037
Research and development, net	11,764	21,259	-	33,023
Selling and marketing	16,106	6,421	179	22,706
General and administrative	11,302	4,436	1,286	17,024
Operating income (loss)	11,291	17,069	(7,076)	21,284
Financial expenses, net				4,298
Income before taxes				16,986
Taxes on income (benefit)				(1,423)
Net income				\$ 18,409
Depreciation and amortization expenses	\$ 6,811	\$ 6,128	\$ 210	\$ 13,149
	Year ended December 31, 2017			
	Fixed Networks	Mobility Solutions	Terrestrial Infrastructure Projects	Total
Revenues	\$ 116,105	\$ 88,397	\$ 78,254	\$ 282,756
Cost of revenues	81,920	46,493	71,848	200,261
Gross profit	34,185	41,904	6,406	82,495
Research and development, net	12,172	15,842	-	28,014
Selling and marketing	17,782	5,782	195	23,759
General and administrative	10,987	6,326	2,548	19,861
Operating income (loss)	(6,756)	13,954	3,663	10,861
Financial expenses, net				4,307
Income before taxes				6,554
Taxes on income (benefit)				(247)
Net income				\$ 6,801
Depreciation and amortization expenses	\$ 5,046	\$ 7,902	\$ 192	\$ 13,140

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 15:- CUSTOMERS, GEOGRAPHIC AND SEGMENT INFORMATION (Cont.)

## b. Geographic information:

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:

	Year ended December 31,		
	2019	2018	2017
Latin America	\$ 81,622	\$ 94,707	\$ 132,134
Asia Pacific	44,181	39,381	34,586
North America	107,520	97,122	73,921
Europe, the Middle East and Africa	30,169	35,181	42,115
	<u>\$ 263,492</u>	<u>\$ 266,391</u>	<u>\$ 282,756</u>

## c. The Company's long-lived assets (property and equipment, net) are located as follows:

	December 31,	
	2019	2018
Israel	\$ 62,531	\$ 64,018
Latin America	3,828	4,564
United States	6,159	5,620
Europe	9,025	9,117
Other	1,041	1,084
	<u>\$ 82,584</u>	<u>\$ 84,403</u>

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

	Year ended December 31,		
	2019	2018	2017
Customer A	16%	10%	28%
Customer B	12%	15%	*)
Customer C	11%	*)	*)
Customer D	*)	13%	*)

\*) Less than 10%

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 16:- 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.
- b. In December 2015 the Company entered into a memorandum of understanding with Orbit Communication Systems, ("Orbit"), a publicly traded company in Israel (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. Transactions with Orbit are presented for the period starting August 2017. As of December 31, 2019, FIMI holds approximately 41.8% of Orbit share capital.
- c. Transactions with the related parties:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cost of revenues of products	\$ 2,048	\$ 764	\$ 3,770
Research and development	-	\$ 346	\$ 61
Purchase of property and equipment and inventory	-	\$ 101	\$ 100

- d. Balances with the related parties:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Advance payments	\$ 344	\$ 144
Trade payables	\$ 109	\$ 125
Accrued expenses	\$ 1,761	\$ 1,797

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 17:- SUBSEQUENT EVENT

1. On January 29, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Comtech Telecommunications Corp., a Delaware corporation ("Comtech"), and Convoy Ltd., a company organized under the laws of the State of Israel and a wholly-owned subsidiary of Comtech ("Merger Sub"), pursuant to which, among other things, Comtech will acquire Gilat by way of the merger of Merger Sub with and into Gilat (the "Merger"), with Gilat surviving the Merger as a wholly-owned subsidiary of Comtech. The Merger is structured as a statutory merger pursuant to Sections 314-327 of the Companies Law, 5759-1999, of the State of Israel. Pursuant to the terms and subject to the conditions of the Merger Agreement each ordinary share, nominal value NIS 0.20, of Gilat (the "Gilat Shares"), issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") will be cancelled and extinguished and automatically converted into the right to receive (the "Merger Consideration") of a combination of (A) \$7.18 in cash, without interest, plus (B) 0.08425 of a validly issued, fully paid and nonassessable share of the common stock of Comtech, par value \$0.10 per share (the "Comtech Common Stock"), with cash payable in lieu of fractional shares of Comtech Common Stock, implying a total consideration of approximately \$10.25 per Gilat Share on the date we entered into the Merger Agreement. In addition, during the year ended December 31, 2019 the Company had expenses related to the Merger which amounted to \$118 and were recorded as part of its G&A expenses.

The Boards of Directors of Comtech and Gilat have unanimously approved the Merger and the Merger Agreement. The Merger is subject to customary closing conditions of transactions between public United States and Israeli companies. The consummation of the Merger is not subject to any financing condition.

Various legal proceedings have been initiated by purported shareholder plaintiffs against the Company and its directors and against Comtech and its principal executive officer with respect to the Merger and the disclosure contained in the proxy statement/registration statement on Form S-4 that was filed with the SEC on March 2, 2020 seeking approval of the merger and certain other matters and registering the shares of Comtech Common Stock to be issued in connection with the Merger. The results of any such potential legal proceedings are difficult to predict and could delay or prevent the Merger from becoming effective in a timely manner.

The Merger is expected to be completed in the second or third quarters of 2020.

2. The ongoing Coronavirus pandemic that first surfaced in China and is spreading throughout the world has had an adverse effect on the Company's industry and the markets in which it operates. The Coronavirus outbreak has significantly impacted the travel and aviation markets in which the Company's significant IFC customers operate and has resulted in a slowdown of the Company's business with some of these customers. The Company has experienced postponed orders and suspended decision making in other markets that are likely to be negatively affected by the Coronavirus. As a result, during the first quarter of 2020, the Company has experienced a significant reduction in business and expects to record a loss for the quarter. Further, the guidance of social distancing and the requirements to work from home in key territories such as Israel, Peru, China, California, Colombia, Australia, Bulgaria and other countries, in addition to greatly reduced travel globally, has resulted in a substantial curtailment of business activities, which has affected and is likely to continue to affect the Company's ability to conduct fieldwork as well as deliver products and services. While the majority of the Company's products are manufactured outside of China, certain components and materials are manufactured or procured in China and the Company also has other operations in Asia. The Company is unable at this time to estimate the extent of the effect of the Coronavirus on its business. In order to mitigate the impact of the decline in business, the Company adopted a plan to reduce expenses, including a reduction in its headcount as well as other cost savings measures. This public health threat is likely to continue to adversely impact the Company by its negative impact on the Company's ability to generate revenues due to reduced end-market demand from governments, enterprises and consumers, leading to order delays and cancellations. In addition, certain of the Company's sales and support teams are unable to travel or meet with customers and the threat has caused operating, manufacturing, supply chain and project development delays and disruptions, labor shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures).

Given the potential impact on the Company's businesses as a result of the outbreak, the values or the recoverable amounts of certain assets subsequent to the reporting date may be less than their carrying amounts as of December 31, 2019. The potential decline in value is determined to be a non-adjusting event as management concluded that the cause of the shut down in the series of events that led to the disruptions in operations is not the outbreak itself, but rather the measures taken by the government after the reporting date. Because the outbreak may also result in uncertainties in relation to the assumptions and estimations associated with the measurement of various assets and liabilities in the financial statements that the Company may not have previously recognized or disclosed, the occurrence of the outbreak has certainly added additional risks that the carrying amounts of assets and liabilities may require certain adjustments within the next financial year which financial effect cannot be reasonably estimated at this stage.