RSTAR CORP
Form SC 13E3/A
February 13, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO SCHEDULE 13E-3

RULE 13E-3 TRANSACTION STATEMENT
(PURSUANT TO SECTION 13(e) OF THE SECURITIES EXCHANGE ACT OF 1934)

rStar Corporation

(Name of the Issuer)

Gilat Satellite Networks Ltd.

(Name of Person(s) Filing Statement)

$0.01 Par Value Common Stock

(Title of Class of Securities)

98912E 10 0

(CUSIP Number of Class of Securities)

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(Name, Address and Telephone Number of Person Authorized to Receive
Notices and Communications on Behalf of Person(s) Filing Statement)

Copy to:

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This statement is filed in connection with (check the appropriate box):

o	(a)	The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C, or Rule 13e-3(c) under the Securities Exchange Act of 1934.
o	(b)	The filing of a registration statement under the Securities Act of 1933.
o	(c)	A tender offer.
x	(d)	None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies. o

Check the following box if the filing is a final amendment reporting the results of the transaction. o

Calculation of Filing Fee

Transaction Valuation	Amount of Filing Fee*
$9,493,380	$768

* The amount of the filing fee equals $80.90 per million of the value of the securities to be acquired. The filing fee was calculated pursuant to Section 13(e)(3) of the Securities Exchange Act of 1934, as amended, and Rule 0-11 thereunder.

o Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:	$ 768.00
Form or Registration No.:	SC 13E-3
Filing	Party: Gilat Satellite Networks Ltd.
Date	Filed: December 24, 2003

SUMMARY TERM SHEET

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the transaction, passed upon the merits or fairness of the transaction or passed upon the adequacy or accuracy of the disclosure in the document. Any representation to the contrary is a criminal offense.

This summary and the remainder of this transaction statement on Schedule 13E-3 include information describing the going private transaction involving rStar Corporation, referred to herein as rStar, how it affects you, what your rights are with respect to the transaction as a stockholder of rStar and the position of Gilat Satellite Networks, Ltd., referred to herein as we, us or Gilat, on the fairness of the transaction to the unaffiliated public stockholders of rStar, that is, the stockholders other than Gilat and its affiliates. Please read this summary and the remainder of this document very carefully.

Principal Terms of the Transaction

Relationship of the Parties

rStar, through its wholly-owned subsidiary, StarBand Latin America (Holland) N.V., provides satellite-enabled rural telephony and internet services and related network operations in certain Latin America countries in connection with long-term contracts awarded to affiliates of Gilat and certain contracts awarded to rStar's Latin American subsidiaries. In addition, rStar provides two-way, always-on, high-speed Internet access and telephony to residential and small office/home office customers in Latin America via satellite. rStar's services provide high-capacity, high-speed transmission of data, audio, telephony and video to consumers and other subscribers. rStar offers to all of its customers stand-alone Internet access as well as a bundled product which includes telephony services.

Gilat, together with its affiliates, holds approximately 84.9% of the outstanding shares of common stock, par value $0.01 per share, of rStar. Gilat, with its global subsidiaries Spacenet Inc. and rStar, is one of the leading providers of telecommunications solutions based on Very Small Aperture Terminal, or VSAT satellite network technology - with approximately 400,000 VSATs shipped worldwide. Gilat, headquartered in Petah Tikva, Israel, markets the Skystar Advantage(R), DialAw@y IP(TM), FaraWay(TM), Skystar 360E(TM)and SkyBlaster* 360 VSAT products in more than 70 countries around the world. Gilat provides equipment for satellite-based, end-to-end enterprise networking and rural telephony solutions to customers across six continents, and markets interactive broadband data services, primarily in the United States. Certain officers and directors of Gilat are also officers and directors of rStar. See Item 3, "Identity and Background of Filing Person" and Schedule I to this Schedule 13E-3.

Negotiated Purchase

On December 4, 2003, Gilat entered into an agreement , which was deemed effective as of November 25, 2003, to purchase an aggregate of 9,672,031 shares of rStar common stock from certain individual shareholders of rStar and/or their respective affiliates. These individual shareholders will receive cash consideration of $0.60 per share in this negotiated purchase, subject to adjustment if Gilat pays a higher price per share to other rStar stockholders.Upon the consummation of the negotiated purchase, Gilat s ownership of the shares of common stock of rStar will increase from approximately 84.9% to approximately 94.2%. Pursuant to the terms of the stock purchase agreement, Gilat is required to complete a short-form merger to acquire shares held by all other rStar stockholders at $0.60 per share promptly following such purchase. The stock purchase agreement also contains voting, stand-still and lock-up agreements and is subject to several closing conditions, including the satisfaction of our filing obligations under the Exchange Act. See the section entitled "Fairness of the Going-Private Transaction - Recent purchases of share of rStar common stock" below.

This transaction statement is being filed because the consummation of the negotiated purchase is the first step of a transaction which will result in a Rule 13E-3 transaction as defined under the Exchange Act.

The Short-Form Merger

Upon consummation of the negotiated purchase, Gilat will hold approximately 94.2% of rStar's outstanding shares. After consummating the negotiated purchase, we intend to undertake a short-form merger or similar transaction whereby a to-be-formed wholly-owned subsidiary of Gilat which will hold all of the rStar shares beneficially owned by Gilat (referred to herein as the acquisition subsidiary) will be merged with and into rStar.

After the short-form merger, we intend to seek to cause the registration of rStar's common stock under the Securities Exchange Act of 1934, as amended, to be terminated. The negotiated purchase and the short-form merger are collectively referred to herein as the going-private transaction.

Pursuant to the short-form merger, the acquisition subsidiary will be merged with and into rStar with rStar being the surviving corporation. Each outstanding share of rStar's common stock (other than shares held by the acquisition subsidiary and the unaffiliated public stockholders, if any, who properly exercise their dissenters' statutory appraisal rights under the Delaware General Corporation Law) will be canceled in exchange for cash in the amount of $0.60 per share to the holder in cash, without interest. See "Special Factors - Purposes, Alternatives, Reasons and Effects of the Going-Private Transaction - Effects - Treatment of options and warrants" and Item 4(a)(2), "Terms of the Transaction - Material Terms - Mergers or similar transactions" in this transaction statement.

Purpose of the Going-Private Transaction

The purpose of the going-private transaction is for Gilat to become the 100% owner of rStar. Upon completion of the short-form merger that is to occur following consummation of the negotiated purchase, rStar will become a wholly-owned subsidiary of Gilat. The transactions have been structured in order to effect a prompt and orderly transfer of the minority ownership of rStar from the public stockholders to us and to provide stockholders with cash for all of their rStar common stock as promptly as practicable. See "Special Factors - Purposes, Alternatives, Reasons and Effects of the Going-Private Transaction - Purposes."

Merger Consideration

The consideration to be paid to rStar's unaffiliated public stockholders pursuant to the short-form merger will be $0.60 per share in cash, which represents a $0.06 (approximately 11.1%) per share premium over the last sale price per share of $0.54 on December 3, 2003, the date prior to the date on which the stock purchase agreement was executed and the date of the first public announcement of the execution of the stock purchase agreement.

Tax Consequences

Generally, the consideration received in the short-form merger will be taxable for United States federal income tax purposes. You will recognize taxable gain or loss in the amount of the difference between $0.60 and your adjusted tax basis for each share of rStar common stock that you own at the time of the short-form merger. See "Special Factors - Certain Federal Income Tax Consequences of the Going-Private Transaction" in this transaction statement.

No Stockholder Vote

As the owner of over 90% of rStar's outstanding shares after the consummation of the negotiated purchase, we will be entitled to effect the short-form merger through the acquisition subsidiary by resolution of its board of directors and without any vote of rStar's stockholders, as permitted by Section 253 of the DGCL. See "Special Factors - Fairness of the Going-Private Transaction" and Item 4, "Terms of the Transaction" in this transaction statement.

Surrender of Certificates and Payment for Shares

You will be paid for your shares of rStar common stock promptly after the effective date of the short-form merger. Instructions for surrendering your stock certificates will be set forth in a Notice of Merger and Appraisal Rights and a Letter of Transmittal, which will be mailed to stockholders of record of rStar within 10 calendar days following the date the short-form merger becomes effective and should be read carefully. Please do not submit your stock certificates before you have received these documents. Sending the acquisition subsidiary your stock certificates with a properly signed Letter of Transmittal will waive your appraisal rights described below. See Item 4, "Terms of the Transaction" in this transaction statement.

Source and Amount of Funds

The total amount of funds required by the acquisition subsidiary to pay the merger consideration to the unaffiliated public stockholders of rStar, and to pay related fees and expenses is estimated to be approximately $4.9 million, in addition to payment of approximately $5.8 million for the shares to be acquired in connection with the negotiated purchase The acquisition subsidiary plans to fund the purchase price with cash from us that is not subject to any financing condition. See Item 10, "Source and Amount of Funds or Other Consideration" in this transaction statement.

Fairness of the Going-Private Transaction

Gilat's Position on the Fairness of the Going-Private Transaction

Gilat has determined that the going-private transaction is both substantively and procedurally fair to the unaffiliated public stockholders. This belief is based on the following factors:

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to the unaffiliated public shareholders because, among other reasons, the going-private transaction represents an opportunity for the unaffiliated public stockholders to receive cash for each share of rStar common stock, not subject to any financing condition, at a premium to the current trading price for the rStar common stock (the last sale price for a share of rStar common stock was $0.54 on December 3, 2003, the date prior to the date on which the stock purchase agreement was executed and the date of the first public announcement of the execution of the stock purchase agreement).

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to the unaffiliated public shareholders because, among other reasons, such consideration substantially exceeds the per share book value of each share of rStar common stock, which, based on the most recent unaudited balance sheets of rStar, was approximately $0.19 at September 30, 2003.

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to the unaffiliated public shareholders because, among other reasons, a valuation analysis of rStar performed by Gilat management resulted in a valuation of below $0.60 per rStar share on both a going concern and a liquidation basis.

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to the unaffiliated public shareholders because, among other reasons, we do not believe that unaffiliated public stockholders could rely on liquidity of their investment from a sale of the business occurring in the foreseeable future. Prior to the consummation of the purchase pursuant to the stock purchase agreement, Gilat owned approximately 84.9% of the issued and outstanding rStar shares, and had no present intention to liquidate its position in rStar. In addition, even if Gilat was prepared to sell its position in rStar, since most of rStar s business is generated by Gilat, it is not likely that a meaningful sale price could be otherwise achieved.

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to the unaffiliated public shareholders because, among other reasons, we believe that even if the special distribution was payable to rStar stockholders (other than Gilat) in accordance with the terms of rStar's certificate of incorporation (which special distribution could be up to a maximum of $5 million (or approximately $0.32 per share)), any such payment would only arise because of significant weakness in rStar's results of operation and financial performance. Gilat believes that any such weakness would adversely impact the trading price for rStar s common stock

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to the unaffiliated public shareholders because, among other reasons, rStar currently owes Gilat and its affiliates in excess of $20 million. A portion of that debt represents obligations owed by Starband Latin America (Holland) B.V. to Gilat at the time that rStar acquired StarBand Latin America (Holland) B.V. from Gilat in August 2002. That amount, as well as additional amounts incurred since that time, was incurred by rStar and its subsidiaries as Gilat advanced funds to rStar and its subsidiaries in order to enable them to acquire equipment and finance and manage the cost of certain on-going projects. Since September 2002, Gilat has deferred and extended the timing of the repayment of such amounts. Gilat is under no obligation to continue to defer such payments. Without Gilat s agreement to continue to defer such payments, rStar could face a liquidity crisis.

Gilat believes that the $0.60 per share consideration to be paid for shares of rStar common stock is fair to shareholders because, among other reasons, the unaffiliated public stockholders of rStar are entitled to exercise appraisal rights and demand "fair value" for their shares as determined by the Delaware Court of Chancery, which may be determined to be more or less than the cash consideration offered in the short-form merger.

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See Special Factors - Fairness of the Going-Private Transaction.

Appraisal Rights

You have a statutory right to dissent from the short-form merger and demand payment of the fair value of your rStar common stock as determined in a judicial appraisal proceeding in accordance with Section 262 of the DGCL, plus a fair rate of interest, if any, from the date of the consummation of the short-form merger. This value may be more or less than the $0.60 per share in cash merger consideration. In order to qualify for these rights, you must make a written demand for appraisal within 20 days after the date of mailing of the Notice of Merger and Appraisal Rights and otherwise comply with the procedures for exercising appraisal rights set forth in the DGCL. The statutory right of dissent is set out in Section 262 of the

DGCL and is complicated. Any failure to comply with its terms will result in an irrevocable loss of such right. Stockholders seeking to exercise their statutory right of dissent are encouraged to seek advice from legal counsel. See Item 4(d), "Terms of the Transaction - Appraisal rights," in this transaction statement.

Consequences of the Going-Private Transaction

Effects of the Going-Private Transaction

Completion of the going-private transaction will have the following consequences:

The acquisition subsidiary will merge with and into rStar resulting in a single, wholly-owned subsidiary of Gilat.

Only Gilat will have the opportunity to participate in the future earnings and growth, if any, of rStar's operations. Additionally, only Gilat will face the risk of losses generated by rStar's operations or the decline in value of rStar after the short-form merger.

rStar will no longer be subject to the reporting and other disclosure obligations of the Exchange Act, including requirements to file annual and other periodic reports or to provide the type of going private disclosure contained in this transaction statement.

rStar will no longer incur the costs associated with being a public company, including legal, audit and other fees.

Subject to the exercise of statutory appraisal rights, each of your shares of rStar common stock will be converted into the right to receive $0.60 in cash, without interest.

You will no longer be entitled to receive any special distribution (as defined in rStar's certificate of incorporation) which, pursuant to the terms of rStar's certificate of incorporation and but for the going-private transaction, would be payable to each holder of rStar shares (other than Gilat) in the event that, for the twelve months ended June 30, 2004 rStar's Starband Latin America business does not exceed certain specified net income targets. If payable, the maximum amount of that distribution would be $5 million in the aggregate or approximately $0.32 per share (including the shares which are the subject of the negotiated transaction).

See Special Factors - Purposes, Alternatives, Reasons and Effects of the Going-Private Transaction - Effects.

For More Information

You may read and copy any of the documents incorporated by reference at the public reference room of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. These SEC filings are also available to the public from commercial document retrieval services and at the SEC's Internet web site at www.sec.gov. Documents filed by rStar and incorporated by reference are available without charge upon request to: rStar, 1560 Sawgrass Corporate Parkway, Suite 200, Sunrise, FL 33323. All documents filed by rStar pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this transaction statement to the effective time of the short-form merger shall also be deemed to be incorporated into this transaction statement by this reference. See Item 2, "Subject Company Information," and Item 3, "Identity and Background of Filing Person" in this transaction statement.

If you have any questions about the going-private transaction, please call Rachel Prishkolnik, legal counsel, at + 972 3 925-2003.

SPECIAL FACTORS

PURPOSES, ALTERNATIVES, REASONS AND EFFECTS OF THE GOING-PRIVATE TRANSACTION

Purposes

The purpose of the going-private transaction is for Gilat to acquire the minority public interest in rStar thereby allowing Gilat to terminate rStar s registration under the Exchange Act. Gilat believes that , from rStar s perspective, the going-private transaction is desirable because it will relieve rStar of the substantial costs of remaining a public company with reporting requirements. The direct and indirect costs associated with rStar s compliance with the filing and reporting requirements of the Exchange Act have a material adverse effect on rStar s financial performance and the various costs associated with remaining a public company are expected to increase as a result of recent legislative and regulatory initiatives to improve corporate governance. Gilat believes that, from rStar s perspective, such costs create a burden that adversely impacts rStar s ability to efficiently and profitably operate its business.

Gilat estimates that rStar spent approximately $1,000,000 for the period from January 1, 2003 through September 30, 2003, in costs related to being a public company, a significant portion of which can be attributed to securing directors and officers insurance (approximately $870,000 on an annual basis); fees related to filings with the SEC and NASDAQ (approximately $100,000 on an annual basis); legal fees payable to outside legal counsel (approximately $125,000 on an annual basis); and fees paid for audit services and audit related services (approximately $120,000 on an annual basis). Gilat estimates that the costs incurred by rStar for similar services during the period from January 1, 2003 through September 30, 2003 would have been approximately $80,000 if rStar had been a private company during that time period. Gilat estimates the costs of rStar being a public company, including complying with the reporting requirements, will total approximately $1,350,000 in fiscal year 2004. Gilat estimates that the costs incurred by rStar for similar services will be approximately 105,000 annually, once the termination of the registration becomes effective.

Gilat believes the savings for rStar will result from the elimination of NASDAQ stock market fees, press release expenses and certain legal fees, as well as a significant reduction in audit fees, independent directors compensation, officers and directors liability insurance, tax compliance, printing and mailing costs, filing fees, stock transfer agent expenses and other direct expenses associated with the required SEC filings which are all currently incurred by rStar annually.

To Gilat s knowledge, rStar has no present intention or, in its judgment, any current or foreseeable ability to raise capital through sales of securities in a public offering or to acquire other business entities using its stock as the consideration for any such acquisition. Therefore, rStar is unlikely to be in a position to take advantage of its current status as a public company for these purposes. Based on rStar s size and resources Gilat does not believe the costs associated with rStar remaining a public company are justified for rStar. Gilat believes that, from rStar s perspective, the costs of rStar remaining a public company are too high and that it would be irresponsible to maintain rStar as a public company in such circumstances. In light of these disproportionate costs, Gilat believes that it is desirable for rStar to eliminate the administrative and financial burden of rStar remaining a public company subject to the reporting requirements of the Exchange Act.

Alternatives

We believe that effecting the going-private transaction by way of a short-form merger of rStar with and into the acquisition subsidiary under Section 253 of the DGCL is the quickest and most cost effective way for us to acquire the outstanding public minority equity interest in rStar. We considered and rejected the alternative of a long-form merger because of the cost and delay of obtaining the approvals of rStar s board of directors and of the unaffiliated public stockholders. We also rejected a tender offer for the rStar common stock held by unaffiliated public stockholders as it entailed additional costs and a subsequent short-form merger could still be required. Gilat also rejected the purchase of the assets of rStar because of the costs, delay and uncertainty associated with such a transaction.

Reasons

In determining whether to effect the going-private transaction, the board of directors of Gilat considered several factors, including:

the financial performance of rStar and current economic conditions generally. Based upon rStar s most recently published financial statements for the quarter ended September 30, 2003, rStar s current liabilities exceed rStar s current assets by more than $6 million. Accordingly, rStar does not have sufficient resources to fund its current liabilities. A substantial portion of those liabilities are made up of obligations from rStar to Gilat and its affiliates. Since September 2002, Gilat has deferred and extended the timing of such payments. Gilat is under no obligation to continue to defer such payments. We believe that from rStar s perspective, without Gilat s agreement to continue to defer such payments, rStar could face a liquidity crisis;

the fact that the proposed merger consideration to be paid to the holders of rStar common stock (other than shares held by Gilat and the unaffiliated public stockholders, if any, who properly exercise their dissenters statutory appraisal rights under the DGCL) represented a $0.06 per share premium over the last sale price per share of $0.54 on December 3, 2003, the date prior to the date on which the stock purchase agreement was executed and the date of the first public announcement of the execution of the stock purchase agreement;

the elimination of additional burdens on management associated with public reporting and other tasks resulting from rStar s public company status, including, for example, the dedication of time and resources of rStar s management and board of directors to stockholder, investor and public relations;

the decrease in costs, particularly those associated with being a public company (for example, as a privately-held entity, rStar would no longer be required to file quarterly, annual or other periodic reports with the SEC or publish and distribute to its stockholders annual reports and proxy statements), that Gilat s board of directors anticipates could result in significant savings, including fees for an audit by an independent accounting firm and legal fees;

the greater flexibility that rStar s management would have to focus on long-term business goals, particularly in light of the potential volatility in rStar s quarterly earnings; and

recent public capital market trends affecting small-cap companies, including perceived lack of interest by institutional investors in companies with a limited public float.

a valuation analysis of rStar performed by Gilat based upon certain customary valuation methodologies, resulted in a valuation of below $0.60 per rStar share.

Our board of directors also considered the advantages and disadvantages of leaving rStar as a majority-owned, public subsidiary. In the view of Gilat, the principal advantage of leaving rStar as a majority-owned, public subsidiary would be the ability of Gilat to invest for other purposes the cash that would otherwise be required to buy the minority stockholder interest in rStar. The disadvantages of leaving rStar as a majority-owned, public subsidiary which was considered by Gilat included the inability to achieve many of the benefits discussed above. We concluded that the advantages of leaving rStar as a majority-owned, public subsidiary were significantly outweighed by the disadvantages of doing so, and accordingly that alternative was rejected.

We determined to effect the going-private transaction at this time (i.e., as promptly as practicable after acquiring beneficial ownership of greater than 90% of the shares of rStar common stock) because we wish to immediately realize the benefits of taking rStar private. We were not able to effect a transaction like the going-private transaction before acquiring a significant equity interest in rStar including the prospective purchase of 9,672,031 shares of rStar common stock in the negotiated purchase described above. The value of rStar was not a significant factor in the timing of our decision to propose the going-private transaction.

The first step in the going-private transaction was the negotiation and execution of the stock purchase agreement. The second step in the going-private transaction is structured as a short-form merger under Section 253 of the DGCL. This form of merger allows the unaffiliated public stockholders to receive cash for their shares of rStar common stock quickly and allows us to merge rStar with and into the acquisition subsidiary without any action by the board of directors of rStar or the unaffiliated public stockholders.

Effects

General. Upon completion of the going-private transaction, we will have complete control over the conduct of rStar s businesses and assets. In addition, we will receive the benefit of the right to participate in any future increases in the value of rStar s business, and we will bear the complete risk of any losses incurred in the operation of rStar s business and any decrease in the value of rStar s business. Once the short-form merger is completed, the unaffiliated public stockholders will no longer be able to benefit from a sale of rStar to a third party. From rStar s perspective, after the going-private transaction, rStar s operations and management will be under the exclusive control of Gilat as its 100% parent.

It is expected that immediately following the negotiated purchase and prior to the short-form merger we will own approximately 94.2% of the outstanding rStar common stock.

Stockholders other than Gilat. Upon completion of the short-form merger, the unaffiliated public stockholders will no longer have any interest in, and will not be stockholders of, rStar and therefore would not participate in rStar s future earnings and potential growth and would no longer bear the risk of any decreases in the value of rStar. In addition, the unaffiliated public stockholders would not share in any distribution of proceeds after any sales of businesses of rStar, whether contemplated at the time of the short-form merger or thereafter. See Item 6(c), Purposes of the Transaction and Plans or Proposals - Plans. All of the unaffiliated public stockholders other indicia of stock ownership, such as the rights to vote on certain corporate decisions, to elect directors, to receive distributions upon the liquidation of rStar and to receive appraisal rights upon certain mergers or consolidations of rStar (unless such appraisal rights are perfected in connection with the short-form merger), as well as the benefit of potential increases in the value of a public stockholder s holdings in rStar based on any improvements in rStar s future performance, will be extinguished upon completion of the short-form merger.

In addition, upon completion of the short-form merger, the unaffiliated public stockholders will no longer be entitled to receive any of the special distribution provided for in rStar s certificate of incorporation. Pursuant to the terms of rStar s certificate of incorporation adopted in connection with August 2002 acquisition by rStar of the Starband Latin America business from Gilat, rStar agreed that it would pay a special distribution to its stockholders (other than Gilat) if the Starband Latin America business did not achieve certain earnings targets for either one or both of the years ended June 30, 2003 and June 30, 2004. The earnings targets were satisfied for the year ended June 30, 2003 and, as a result, no special distribution was payable with respect to the period then ended. However, in the event that the net income (as defined in rStar s certificate of incorporation) of the Starband Latin America business for the period from July 1, 2003 through June 30, 2004 is less than or equal to $11.0 million, the special distribution would be $5.0 million (or approximately $0.32 per rStar share (other than those held by Gilat) including those which are the subject of the negotiated purchase) and if the net income for the Starband Latin America business for the period from July 1, 2003 through June 30, 2004 is greater than $11.0 million and less than or equal to $16.5 million, the special distribution would be $2.5 million (or approximately $0.16 per rStar share (other than those held by Gilat) including those which are the subject of the negotiated purchase). If the applicable net income for the StarBand Latin America Business for the period from July 1, 2003 through June 30, 2004 is greater than $16.5 million, there would be no special distribution. As a result, in addition to no longer participating in the earnings and profits of rStar, unaffiliated public stockholders will not longer benefit from the downside protection provided by the terms of the special distribution.

Upon completion of the short-form merger, the unaffiliated public stockholders will also not bear the risks of potential decreases in the value of their holdings in rStar based on any downturns in rStar s future performance. Instead, the unaffiliated public stockholders will have liquidity in the form of the merger consideration in place of an ongoing equity interest in rStar in the form of the shares of rStar common stock. In summary, if the short-form merger is completed, the unaffiliated public stockholders will have no ongoing rights as stockholders of rStar other than statutory appraisal rights in the case of unaffiliated public stockholders who are entitled to and perfect these rights under Delaware law.

The shares of rStar Common Stock. If the short-form merger is consummated, public trading of the shares of rStar Common Stock will cease. Gilat intends to delist the rStar common stock from the Nasdaq SmallCap Market and to deregister the rStar common stock under the Exchange Act. As a result, rStar will no longer be required under the federal securities laws to file reports with the SEC and will no longer be subject to the proxy rules under the Exchange Act. In addition, the principal stockholders of rStar will no longer be subject to reporting their ownership of shares of rStar common stock under Section 16 of the Exchange Act or to the requirement under Section 16 of the Exchange Act to disgorge to rStar certain profits from the purchase and sale of shares of rStar common stock.

Treatment of options and warrants. Pursuant to the terms of the short-form merger, all vested options to purchase rStar common stock will be converted into the right to receive the short-form merger consideration of $0.60 per share. In accordance with the terms of their option agreements, the unvested options held by Samer Salameh (rStar s Chief Executive Officer), and each of rStar s directors will lapse upon consummation of the short-form merger. Upon exercise of options, each holder will receive the difference between the exercise price of its options and $0.60 per option share. All warrants to purchase rStar common stock will remain outstanding after the short-form merger in accordance with their terms.

Directors. The board of directors of Gilat consists of the persons listed in Schedule I to this transaction statement.

SELECTED FINANCIAL DATA

The selected consolidated financial information presented below, under the captions Income Statement Data for the years ended December 31, 2002, 2001 and 2000 and Balance Sheet Data at December 31, 2002 and 2001, have been prepared in accordance with U.S. GAAP and have been derived from rStar s audited consolidated financial statements included in rStar s annual report on Form 10-K for the fiscal year ended December 31, 2002, which financial statements are incorporated herein by reference.

The selected consolidated financial information presented below, under the captions Income Statement Data for the nine months ended September 30, 2003 and 2002 and Balance Sheet Data at September 30, 2003, have been prepared in accordance with U.S.GAAP and have been derived from rStar s consolidated financial statements included in rStar s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003, which financial statements are incorporated herein by reference. Please note that the interim results are not necessarily indicative of results that may be expected for any other period of the year.

	Years Ended December 31,			Nine Months Ended September 30,	
	2000	**2001**	**2002**	**2002**	**2003**
Income Statement Data	**Audited**	**Audited**	**Audited**	**Unaudited**	**Unaudited**
	(Dollars in thousands, except per share data)				
Revenues from continuing operations	$ --	$ 55,043	$ 25,836	$ 23,674	$ 35,931
Gross Profit	--	2,126	(2,364)	1,272	14,111
Income (loss) from continuing operations	(5,182)	(12,800)	(23,971)	(12,836)	4,334
Loss from discontinued operations	(105,773)	(18,315)	(1,937)	(1,666)	--
Net Income (loss)	(110,955)	(31,115)	(25,908)	(14,502)	$ 4,334
Dividend on Series A Preferred stock	(213)	--	--	--	--
Net loss applicable to common stockholders	$ (111,168)	$ (31,115)	$ (25,908)	$ (14,502)	$ 4,334
Basic and diluted income (loss) per share:					
from continuing operations	$ (0.12)	$ (0.13)	$ (0.23)	$ (0.12)	$ 0.04
from discontinued operations	$ (2.44)	$ (0.18)	$ (0.02)	$ (0.01)	$ --
Basic and diluted income (loss) per share	$ (2.56)	$ (0.31)	$ (0.25)	$ (0.13)	$ 0.04
Weighted average number of shares used in					

	Years Ended December 31,			Nine Months Ended September 30,	
computing net earnings (loss) per share (in thousands):					
Basic	43,348	99,171	105,978	106,460	104,530
Diluted	43,348	99,171	105,978	106,460	104,745

	December 31, 2001	December 31, 2002	September 30, 2003
	Audited	Audited	Unaudited
	(In thousands)		
Balance Sheet Data			
Current assets	$ 76,097	$ 37,385	$ 41,417
Non-current assets	27,496	31,673	39,368
Total assets	103,593	69,058	80,785
Current liabilities	58,152	42,854	47,788
Long-term Liabilities	9,030	11,922	13,270
Total liabilities	67,182	54,776	61,058
Shareholders' equity	$ 36,411	$ 14,282	$ 19,727
Book value per share:	$ 0.34	$ 0.14	$ 0.19

Ratio or Earnings to Fixed Charges

Our consolidated ratio of earnings to fixed charges is as follows:

	For the Year Ended December 31,		For the Nine Months Ended September 30, 2003
	2001	2002	2003
Ratio of Earnings to Fixed Charges (1)	N/A	N/A	8.64

(1) For the purposes of this ratio, earnings consists of earnings before income taxes, minority interest and fixed charges, and fixed charges consists of interest on indebtedness and capital lease obligations, the interest component of rental expenses, amortization of debt discount and issuance expenses. Earnings were insufficient to cover fixed charges by $13.3 million and $23.8 million for the years ended December 31, 2001 and 2002, respectively.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE GOING-PRIVATE TRANSACTION

The following is a general summary of the material U.S. federal income tax consequences of the going-private transaction to beneficial owners of shares of rStar Common Stock. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the **Code**), applicable treasury regulations thereunder, judicial decisions and current administrative rulings as in effect on the date of this Schedule 13E-3. The