GLOBECOMM SYSTEMS INC
Form 10-Q
February 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number: 000-22839

GLOBECOMM SYSTEMS INC.
(Exact name of Registrant as specified in its charter)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	11-3225567 (I.R.S. EMPLOYER IDENTIFICATION NO.)
45 OSER AVENUE, HAUPPAUGE, NY (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	11788 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (631) 231-9800

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 [X] No [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of February 11, 2003, there were 12,554,457 shares of the registrant's common stock, $0.001 par value, outstanding.

GLOBECOMM SYSTEMS INC.

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PART I -- FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS .

GLOBECOMM SYSTEMS INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31, 2002 (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 27,502
Restricted cash	588
Accounts receivable, net	10,861
Inventories	9,970
Prepaid expenses and other current assets	1,127
Deferred income taxes	138
Total current assets	50,186
Fixed assets, net	26,837
Goodwill	7,204
Other assets	1,227
Total assets	$ 85,454
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 7,779
Deferred revenues	5,487
Accrued payroll and related fringe benefits	1,032
Other accrued expenses	2,733
Deferred liabilities	144
Capital lease obligation	494
Total current liabilities	17,669
Deferred liabilities, less current portion	1,415
Capital lease obligation, less current portion	9,381
Commitments and contingencies	
Stockholders' equity:	
Series A Junior Participating, shares authorized, issued and outstanding: none at December 31, 2002 and June 30, 2002	--
Common stock, $.001 par value, 22,000,000 shares authorized, shares issued: 12,958,302 at December 31, 2002 and 12,933,062 at June 30, 2002	13
Additional paid-in capital	123,679
Accumulated deficit	(64,242)
Accumulated other comprehensive loss	(45)
Treasury stock, at cost, 393,845 shares at December 31, 2002 and 349,745 shares at June 30, 2002	(2,416)
Total stockholders' equity	56,989
Total liabilities and stockholders' equity	$ 85,454

See accompanying notes.

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED		SIX MO
	DECEMBER 31, 2002	DECEMBER 31, 2001	DECEMBER 31, 2002
Revenues from ground segments, networks and enterprise solutions	$ 11,854	$ 16,939	$ 20,018
Revenues from data communication services	3,202	5,708	7,472
Total revenues	15,056	22,647	27,490
Costs and operating expenses:			
Costs from ground segment systems, networks and enterprise solutions	10,787	15,297	18,479
Costs from data communication services	4,484	6,410	10,773
Selling and marketing	1,615	1,615	3,247
Research and development	157	173	422
General and administrative	2,418	2,216	4,374
Total costs and operating expenses	19,461	25,711	37,295
Loss from operations	(4,405)	(3,064)	(9,805)
Other income (expense):			
Interest income	116	254	286
Interest expense	(230)	(241)	(463)
Net loss	$ (4,519)	$ (3,051)	$ (9,982)
Basic and diluted net loss per common share	$ (0.36)	$ (0.24)	$ (0.79)
Weighted-average shares used in the calculation of basic and diluted net loss per common share	12,566	12,719	12,575

See accompanying notes.

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2002
(IN THOUSANDS)
(UNAUDITED)

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	ACCUMULATED OTHER COMPREHENSIVE	S
	SHARES	AMOUNT	CAPITAL	DEFICIT	LOSS	
Balance at June 30, 2002	12,933	$ 13	123,598	$(54,260)	$ (44)	
Issuance of common stock in connection with employee stock purchase plan	25		81			
Purchases of treasury stock						
Comprehensive loss:						
Net loss				(9,982)		
Gain from foreign currency translation					42	
Unrealized loss on available-for-sale equity securities					(43)	
Total comprehensive loss						
Balance at December 31, 2002	12,958	$ 13	123,679	$(64,242)	$ (45)	

See accompanying notes.

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MO
	DECEMBER 31, 2002

OPERATING ACTIVITIES:	
Net loss	$ (9,982)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	2,184
Provision for doubtful accounts	75
Stock compensation expense	-
Change in deferred liabilities	(2,101)
Changes in operating assets and liabilities:	
Accounts receivable	4,124
Inventories	(1,360)
Prepaid expenses and other current assets	69
Other assets	(884)
Accounts payable	(5,176)
Deferred revenue	1,934
Accrued payroll and related fringe benefits	75
Other accrued expenses	649
Net cash used in operating activities	(10,393)
INVESTING ACTIVITIES:	
Purchases of fixed assets	(536)
Restricted cash	-
Net cash used in investing activities	(536)
FINANCING ACTIVITIES:	
Proceeds from exercise of stock options	-
Proceeds from sale of common stock in connection with employee stock purchase plan	81
Payments under capital leases	(230)
Purchases of treasury stock	(149)
Net cash used in financing activities	(298)
Effect of foreign currency translation on cash	21
Net decrease in cash and cash equivalents	(11,206)
Cash and cash equivalents at beginning of period	38,708
Cash and cash equivalents at end of period	$ 27,502

See accompanying notes.

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for such periods have been included. The consolidated balance sheet at June 30, 2002 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three and six months ended December 31, 2002, are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2003, or for any future period.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2002 and the accompanying notes thereto contained in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 30, 2002.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, NetSat Express, Inc., or NetSat, and Globecomm Systems Europe Limited (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Sale of Stock by Subsidiary

The Company recognizes changes in the ownership percentage of its subsidiaries caused by issuances of the subsidiary's stock as an adjustment to additional paid-in capital in the consolidated statement of changes in stockholders' equity.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements, for its production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. The Company's standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than the Company's long-term complex production-type projects. Revenue is recognized on the Company's standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the

customer. The amount of revenues recorded on each standard production-type contract is reduced by the customers' contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70%

to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the features or capabilities of the system, does not require complex software integration and interfacing and the Company has not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the system. The estimated relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, the Company will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues in the accompanying consolidated balance sheets.

The Company recognizes revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for its non-standard, complex production-type contracts for the production of satellite ground segment systems and equipment that are generally integrated into the customers' satellite ground segment network. The equipment and systems produced in connection with these contracts are typically long-term (in excess of twelve months in term) and require significant customer-specific engineering, drafting and design effort in order to effectively integrate all of the customizable earth station equipment into the customers' ground segment network. These contracts generally have larger contract values, greater economic risks and substantive specific contractual performance requirements due to the engineering and design complexity of such systems and related equipment. Progress payments received in advance by customers are netted against the inventory balances in the accompanying consolidated balance sheets.

Contract costs generally include purchased material, direct labor, overhead and other indirect costs. Anticipated contract losses are recognized, as they become known.

Revenues from data communications services are derived primarily from Internet access service fees. Service revenues from Internet access are recognized ratably over the period in which services are provided. Payments received in advance of providing Internet access services are deferred until the period such services are provided and are presented as deferred revenues in the accompanying consolidated balance sheets.

Costs from Ground Segment Systems, Networks and Enterprise Solutions

Costs from ground segment systems, networks and enterprise solutions consist primarily of the costs of purchased materials, direct labor and related overhead expenses, project-related travel, living costs and subcontractor costs. Costs associated with hardware and equipment sales consist primarily of the purchase of the related products.

Costs from Data Communications Services

Costs from data communications services relating to Internet access service fees consist primarily of satellite space segment charges and Internet connectivity fees. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from leased satellites, depreciation relating to a capitalized satellite transponder lease and network operations expenses which consist primarily of costs associated with the operation of the Network Operation Center (the "NOC"), including depreciation, teleport services and maintaining a twenty-four hour a day, seven-day a week staff to monitor the operations of the NOC.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired primarily from the buyback of the minority interests of NetSat. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually.

The net carrying value of goodwill is approximately $7,204,000, at December 31, 2002 and June 30, 2002, which relates to the buyback of the minority interests of NetSat.

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Comprehensive loss

Comprehensive loss for the three and six months ended December 31, 2002 of approximately $4,436,000 and $9,983,000 includes a foreign currency translation gain of approximately $34,000 and $42,000 and an unrealized gain (loss) on available-for-sale equity securities of approximately $49,000 and ($43,000) for the three and six months ended December 31, 2002, respectively. Comprehensive loss for the three and six months ended December 31, 2001 was approximately $2,965,000 and $5,839,000 which includes a foreign currency translation (loss) gain of approximately ($3,000) and $60,000, and an unrealized gain on available-for-sale equity securities of approximately $89,000 and $0, respectively.

Income Taxes

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income. For the six months ended December 31, 2002 and the year ended June 30, 2002, due to the uncertainty regarding the Company's ability to utilize its net operating losses in the future, the Company provided a valuation allowance against its operating losses and temporary differences, except for approximately $138,000 representing state investment tax credit carryforwards that will be utilized during fiscal 2003 to offset state capital taxes on the Company's consolidated state tax return.

2. BASIC AND DILUTED NET LOSS PER COMMON SHARE

The Company computes net loss per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic and diluted net loss per common share is computed by dividing the net loss for the period by the weighted-average number of common and dilutive equivalent shares outstanding for the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of preferred stock (using an if-converted method) and incremental shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Incremental common equivalent shares are excluded from the calculation of diluted net loss per share if their effect is anti-dilutive. Diluted net loss per share for the three and six months ended December 31, 2002 excludes the effect of approximately 2,000 and 3,000 stock options, respectively, as their effect would have been anti-dilutive. Diluted net loss per share for the three and six months ended December 31, 2001 excludes the effect of approximately 66,000 and 108,000 stock options, respectively, as their effect would have been anti-dilutive.

3. INVENTORIES

Inventories consist of the following:

	DECEMBER 31, 2002	JUNE 30, 2002
	(UNAUDITED)	
	(IN THOUSANDS)	
Raw materials and component parts	$ 901	$ 876
Work-in-progress	9,632	7,718
	10,533	8,594
Less progress payments under long-term contracts	563	--
	$ 9,970	$ 8,594

4. SEGMENT INFORMATION

The Company operates through two business segments. Its ground segment systems, networks and enterprise solutions segment, through Globecomm Systems Inc. and Globecomm Systems Europe Limited, is engaged in the design, assembly and installation of ground segment systems, networks and enterprise solutions. Its data communications services segment, through NetSat, is engaged in providing high-speed, satellite-delivered data communications to developing markets worldwide. NetSat also provides Internet access to customers who have limited or no access to a terrestrial network infrastructure capable of supporting the economical delivery of such services.

The Company's reportable segments are business units that offer different products and services. The reportable segments are each managed

separately because they provide distinct products and services.

The following is the Company's business segment information for the three and six months ended December 31, 2002 and 2001 and as of December 31, 2002 and June 30, 2002:

	THREE MONTHS ENDED DECEMBER 31, 2002	THREE MONTHS ENDED DECEMBER 31, 2001	SIX DECEMBER 2002
	(UNAUDITED) (IN THOUSANDS)		
Revenues:			
Ground segment systems, networks and enterprise solutions	$ 11,854	$ 16,939	$ 20,0
Data communications services	3,202	5,708	7,4
Total revenues	$ 15,056	$ 22,647	$ 27,4
Loss from operations:			
Ground segment systems, networks and enterprise solutions	$ (2,034)	$ (1,461)	$ (4,6
Data communications services	(2,374)	(1,606)	(5,1
Interest income	116	254	2
Interest expense	(230)	(241)	(4
Intercompany eliminations	3	3	
Net loss	$ (4,519)	$ (3,051)	$ (9,9
Depreciation and amortization:			
Ground segment systems, networks and enterprise solutions	$ 511	$ 446	$ 1,0
Data communications services	584	484	1,1
Intercompany eliminations	(3)	(3)	
Total depreciation and amortization	$ 1,092	$ 927	$ 2,1
Expenditures for long-lived assets:			
Ground segment systems, networks and enterprise solutions	$ 25	$ 159	$
Data communications services	454	35	5
Intercompany eliminations	(39)	--	(
Total expenditures for long-lived assets	$ 440	$ 194	$ 5

	DECEMBER 31, 2002 (UNAUDITED)	JUNE 30, 2002

	(IN THOUSANDS)	
Assets:		
Ground segment systems, networks and enterprise solutions	$120,546	$123,484
Data communications services	20,501	20,106
Intercompany eliminations	(55,593)	(43,293)
Total assets	$ 85,454	$100,297

5. COMMITMENTS AND CONTINGENCIES

In October 2002, the Company reached an agreement with one of its vendors, which modified and reduced the Company's satellite bandwidth obligations. Under the terms of this agreement, the Company paid $7.6 million, which included a one-time termination fee of $3.6 million, and $4.0 million, which primarily related to outstanding invoices and an additional security deposit, assigned $31.6 million of future contract revenues to the vendor and reduced the Company's future space segment obligations by $52.2 million. Accordingly, the Company recorded a charge to costs from data communications services of $0.8 million in the second quarter of fiscal 2003, representing the difference between the $3.6 million termination fee and the corresponding reduction in a deferred liability of $2.8 million, which was to be amortized into income over the remaining term of the lease.

In February 2003, the Company reached an agreement with one of its vendors, which reduced the Company's satellite bandwidth obligations. Under the terms of this agreement, the Company will pay a one-time termination fee of $0.6 million, assign $4.6 million of future contract revenues to the vendor and reduce the Company's future space segment obligations by $16.6 million. The Company has guaranteed $0.3 million of the payments from the contract revenues assigned to the vendor.

6. RELATED PARTY TRANACTION

During January 2003, pursuant to a Letter Agreement (the "Agreement") the Company consolidated the then outstanding loan and advances from a former officer of the Company into a $321,000 promissory note (the "Note"). Under the terms of the agreement the Company will forgive the outstanding principal and interest amounts due on the Note in five annual installments beginning in January 2004, subject to the terms of the Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion of our financial condition and results of operations with the consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, based on our current expectations, assumptions, estimates and projections. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as, among others, the decline in demand for our services and products due to economic and industry-specific conditions, the risks associated with operating in international markets and our dependence on a limited number of contracts for a high percentage of our revenue. These risks and others are more fully described in the "Risk Factors" section of this Quarterly Report and in our other filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly

Reports on Form 10-Q. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

OVERVIEW

Since our inception, a majority of our revenues have been generated by ground segment systems, networks and enterprise solutions business. Contracts for these ground segment systems and networks and communications services have been fixed-price contracts in a majority of cases. Profitability of such contracts is subject to inherent uncertainties as to the cost of performance. In addition to possible errors or omissions in making initial estimates, cost overruns may be incurred as a result of unforeseen obstacles, including both physical conditions and unexpected problems encountered in engineering design and testing. Since our business is frequently concentrated in a limited number of large contracts, a significant cost overrun on any contract could have a material adverse effect on our business, financial condition and results of operations.

Contract costs generally include purchased material, direct labor, overhead and other indirect costs. Anticipated contract losses are recognized in the period identified. Costs from ground segment systems, networks and enterprise solutions consist primarily of the costs of purchased materials, direct labor and related overhead expenses, project-related travel, living costs and subcontractor costs. Costs from data communications services consist primarily of satellite space segment charges, Internet connectivity fees, network operations expenses and depreciation. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellite leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations center on a twenty-four hour a day, seven day a week basis, including personnel and related costs. Depreciation relates to a capitalized transponder lease and the network operations center. Selling and marketing expenses consist primarily of salaries, travel and living costs for sales and marketing personnel. Research and development expenses consist primarily of salaries and related overhead expenses for engineers. General and administrative expenses consist of expenses associated with our management, finance, contract and administrative functions.

Our business has been adversely affected by the current global economic slowdown and, in particular, the significant challenges facing the telecommunications industry worldwide. These challenges include excess bandwidth resulting from weak consumer and business demand, which has fallen far short of expectations, and the attendant financial distress facing both traditional telecommunication carriers and the new generation of competitive local exchange carriers. Moreover, as a result of the uncertainties facing the economy, corporations have seriously restricted their capital expenditures to those that are absolutely necessary. The reduction in demand has been accompanied by significant pricing pressures and intensifying competition, while the financial difficulties of industry participants and customers have created risks associated with collectibility of accounts receivable. We have experienced a reduction of business levels which is expected to continue to impact our business and prospects for the foreseeable future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Certain of our accounting policies require judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Actual results may differ from these judgments under different assumptions or conditions. Our accounting policies that require management to apply significant judgment include:

REVENUE RECOGNITION

We recognize revenue in accordance with SAB 101, Revenue Recognition in Financial Statements, for our production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. Our standard satellite ground segment systems produced in connection with these contracts is typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than our long-term complex production-type projects. Revenue is recognized on our standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer's contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the features or capabilities of the equipment, does not require complex software integration and interfacing and we have not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the equipment. The estimated relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, we will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues.

We recognize revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for our non-standard, complex production-type contracts for the production of satellite ground segment systems and equipment that are generally integrated into the customers' satellite ground segment network. The equipment and systems produced in connection with these contracts are typically long-term (in excess of twelve months in term) and require significant customer-specific engineering, drafting and design effort in order to effectively integrate all of the customizable earth station equipment

into the customers' ground segment network. These contracts generally have larger contract values, greater economic risks and substantive specific contractual performance requirements due to the engineering and design complexity of such systems and related equipment. Progress payments received in advance by customers are netted against the inventory balances.

Revenues from data communications services are derived primarily from Internet access service fees. Service revenues from Internet access are recognized ratably over the period in which services are provided. Payments received in advance of providing Internet access services are deferred until the period such services are provided and are presented as deferred revenues.

COSTS FROM GROUND SEGMENT SYSTEMS, NETWORKS AND ENTERPRISE SOLUTIONS

Costs related to our production-type contracts and our non-standard, complex production-type contracts rely on estimates based on total expected contract costs. We use reasonable, dependable estimates of the costs applicable to various elements. Since these contract costs depend on estimates, which are assessed continually during the term of these contracts, costs are subject to revisions as the contract progresses to completion. Revisions in cost estimates are reflected in the period in which they become known. In the event an estimate indicates that a loss will be incurred at completion, we record the costs in the period identified.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired primarily from the buyback of the minority interests of NetSat. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually.

In assessing goodwill, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of goodwill. Future events could cause us to conclude that impairment indicators exist and that the goodwill associated with NetSat is impaired. Any resulting impairment could have a material adverse effect on our financial condition and results of operations.

ALLOWANCES FOR DOUBTFUL ACCOUNTS

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including our past transaction history with the customer and the credit worthiness of the customer. Management specifically analyzes accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness and current economic trends. If the financial condition of our customers were to deteriorate in the future, resulting in an impairment of their ability to make payments, additional allowances may be required.

INVENTORIES

Inventories consist primarily of work-in-progress from costs incurred in connection with specific customer contracts, which are stated at the lower of cost or market value. In assessing the realizability of inventories, we are required to make estimates of the total contract costs based on the various elements of the work-in-progress. It is possible that changes to these estimates could cause a reduction in the net realizable value of our inventories.

RESULTS OF OPERATIONS

Three and Six Months Ended December 31, 2002 and 2001

Revenues from Ground Segment Systems, Networks and Enterprise Solutions. Revenues decreased by $5.1 million, or 30.0%, to $11.9 million for the three months ended December 31, 2002 and decreased by $15.0 million, or 42.8% to $20.0 million for the six months ended December 31, 2002 compared to $16.9 million and $35.0 million for the three and six months ended December 31, 2001, respectively. The decrease relates to a decrease in shipment and/or completion of contracts as a result of a decline in bookings of contract orders due to the continued uncertainty surrounding the global economic slowdown in the telecommunications industry, resulting in customers and prospects continuing to delay projects. We expect the trend in revenues that adversely affected our results of operations for the six months ended December 31, 2002 to continue to adversely impact us.

Revenues from Data Communication Services. Revenues decreased by $2.5 million, or 43.9%, to $3.2 million for the three months ended December 31, 2002 and decreased by $4.4 million, or 37.2%, to $7.5 million for the six months ended December 31, 2002 compared to $5.7 million and $11.9 million for the three and six months ended December 31, 2001, respectively. The decrease reflects changes in market conditions, including the global economic slowdown in the telecommunications industry, pricing pressures in the marketplace and penetration of fiber into areas we have traditionally provided services, coupled with the termination of services from our largest Middle East customer in August 2002. During October 2002 and February 2003, pursuant to agreements reached with two of our vendors, we assigned $36.2 million of contracts, which reduced our monthly recurring revenues by approximately $0.4 million. We expect the trend in revenues that adversely affected our results of operations for the six months ended December 31, 2002 to continue to adversely impact us.

Costs from Ground Segment Systems, Networks and Enterprise Solutions. Costs from ground segment systems, networks and enterprise solutions decreased by $4.5 million, or 29.5%, to $10.8 million for the three months ended December 31, 2002 and decreased by $13.0 million, or 41.3%, to $18.5 million for the six months ended December 31, 2002 compared to $15.3 million and $31.5 million for the three and six months ended December 31, 2001, respectively. The decrease is attributable to the lower revenue base. Costs as a percentage of related revenues increased to 91.0% and 92.3% for the three and six months ended December 31, 2002, compared to 90.3% and 90.0% for the three and six months ended December 31, 2001. The increase was mainly attributable to competitive margin pressure and cost overruns on a major project.

Costs from Data Communications Services. Costs from data communications services decreased by $1.9 million, or 30.0%, to $4.5 million for the three months ended December 31, 2002 and decreased by $2.7 million or 20.3% to $10.8 million for the six months ended December 31, 2002 compared to $6.4 million and $13.5 million for the three and six months ended December 31, 2001, respectively. Costs as a percentage of related revenues increased to 140.0% for the three months ended December 31, 2002 and increased to 144.2% for the six months ended December 31, 2002 compared to 112.3% and 113.7% for the three and six months ended December 31, 2001, respectively. This increase is due to the inability of our lower revenue base to absorb the fixed costs of unutilized transponder capacity. During October 2002, we reached an agreement with one of our vendors, which reduced our future space segment transponder obligations by $52.2 million, or 72%, with this vendor. Accordingly, we recorded a charge to

costs from data communications services of $0.8 million in the second quarter of fiscal 2003, representing the difference between the $3.6 million termination fee and the corresponding reduction in a deferred liability of $2.8 million, which was to be amortized into income over the remaining term of the lease. This agreement will continue to reduce our future monthly space segment costs by approximately $0.8 million.

Selling and Marketing. Selling and marketing expenses remained relatively consistent for the three and six months ended December 31, 2002 compared to the three and six months ended December 31, 2001.

Research and Development. Research and development expenses remained relatively consistent for the three and six months ended December 31, 2002 compared to the three and six months ended December 31, 2001.

General and Administrative. General and administrative expenses increased by $0.2 million, or 9.1%, to $2.4 million for the three months ended December 31, 2002 and increased by $0.1 million, or 1.2%, to $4.4 million, for the six months ended December 31, 2002 compared to $2.2 million and $4.3 million for the comparable three and six months ended December 31, 2001, respectively. The increase is primarily due to an increase in legal expenses, mainly related to pursuing available remedies to recover monies owed for services rendered and liquidating damages associated with the termination of services from our largest Middle East customer in August

2002 and an increase in insurance premiums based on the current operating environment. General and administrative expenses as a percentage of revenues for the three months ended December 31, 2002 increased to 16.1% compared to 9.8% for the three months ended December 31, 2001 and increased for the six months ended December 31, 2002 to 15.9% compared to 9.2% for the six months ended December 31, 2001, principally due to the decrease in our revenues.

Interest Income. Interest income decreased by $0.1 million, or 54.3%, to $0.1 million for the three months ended December 31, 2002 compared to $0.3 million for the three months ended December 31, 2001, and decreased by $0.4 million, or 57.8%, to $0.3 million for the six months ended December 31, 2002 compared to $0.7 million for the six months ended December 31, 2001. The decrease is primarily the result of a decrease in cash and cash equivalents due to cash used in our operations during the past twelve months ended December 31, 2002, coupled with a decline in interest rates.

Interest Expense. Interest expense remained relatively consistent for the three and six months ended December 31, 2002 compared to the three and six months ended December 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, we had working capital of $32.5 million, including cash and cash equivalents of $27.5 million, restricted cash of $0.6 million, net accounts receivable of $10.9 million, inventories of $10.0 million, prepaid expenses and other current assets of $1.1 million and deferred income taxes of $0.1 million, offset by $7.8 million in accounts payable, $5.5 million in deferred revenues and $4.4 million in accrued expenses and other current liabilities.

Net cash used in operating activities during the six months ended December 31, 2002 was $10.4 million, which primarily related to the net loss of $10.0 million, a decrease in accounts payable of $5.2 million relating to the reduction in business levels, a decrease in deferred liabilities of $2.1 million associated with an agreement reached in October 2002 with one of our vendors, which reduced our future space segment transponder obligations by $52.2 million, and an increase in inventory of $1.4 million from materials purchased for newly awarded projects, offset by a decrease in accounts receivable of $4.1 million due to collections on certain contract billings and the reduction in revenues, depreciation and amortization expense of $2.2 million related primarily to the network operation center and one satellite space segment transponder and a $1.9 million increase in deferred revenues due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts.

Effective April 11, 2002, we amended our bank agreement and established a $5.0 million working capital line of credit. The modified credit facility bears interest at the prime rate (4.25% at December 31, 2002) and is collateralized by a first security interest on most of our assets. The credit facility, which expires on April 10, 2003, contains certain financial covenants, with which we were in compliance at December 31, 2002. As of December 31, 2002, no amounts were outstanding under this credit facility, however, there are outstanding standby letters of credit, bid proposals and performance guarantees of approximately $2.3 million, which are applied against and reduce the amounts available under the working capital line of credit.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through 2008. Future minimum lease payments due on these leases through December 31, 2003 are approximately $6.8 million. In February 2003, we reached an agreement with one of our vendors, which reduced our satellite bandwidth obligations. Under the terms of this agreement, we will pay a one-time termination fee of $0.6 million, assigned $4.6 million of future contract revenues to the vendor and reduced our future space segment obligations by $16.6 million. The Company has guaranteed $0.3 million of the payments from the contract revenues assigned to the vendor.

At December 31, 2002 we had contractual obligations and commercial commitments as follows (in thousands):

	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEA
CONTRACTUAL OBLIGATIONS				
Capital lease obligation (1)	$ 16,178	$ 1,387	$ 2,774	$ 2,77
Operating leases (1)	29,735	6,762	13,068	8,61
Total contractual cash obligations	$ 45,913	$ 8,149	$ 15,842	$ 11,38
OTHER COMMERCIAL COMMITMENTS				
Standby letters of credit	$ 1,345	$ 1,052	$ 281	$ 1

Performance guarantees	981	981	-	
Total commercial commitments	$ 2,326	$ 2,033	$ 281	$ 1

(1) In February 2003, we reached an agreement with one of our vendors, which reduced our capital lease obligation by $16.1 million and reduced our future operating lease commitment by $0.5 million.

The above operating lease payments include two contracts we entered into with a vendor in fiscal 2001 for satellite space segment services on satellites to be launched in late 2002 and operational by March 2003, for a total value of approximately $6.0 million. The vendor has experienced significant delays in the planned launch and operational dates for the satellites. As of result of these delays, we maintain that we have a right to terminate the contracts without cost and have provided notification of such termination. The vendor has denied our assertion that we have a right to terminate the contracts without cost. If our position is sustained, the above operating lease commitment would be reduced by approximately $6.0 million.

On November 7, 2001, the Board of Directors authorized a stock repurchase program whereby we can repurchase up to $2.0 million of our outstanding stock, representing approximately 3.7% of the total shares outstanding on that date. Since November 2001, we repurchased, in aggregate, a total of 256,100 shares for $1.4 million. The timing, price, quantity and manner of future purchases will be at the discretion of management, depending on market conditions and other factors, subject to compliance with the applicable securities laws.

We expect that our cash and working capital requirements for operating activities will increase as we continue to implement our business strategy. Management anticipates that we will experience negative cash flows due to continued operating losses as a result of a decrease in orders due to the continued global economic slowdown in the telecommunications industry and additional working capital requirements for new orders.

NetSat has had, and we expect it will continue to have, significant working capital requirements, which have, and will, put increased pressure on our capital resources. We are currently exploring additional alternative strategies to continue to reduce the drain on our resources caused by NetSat's losses. We cannot assure you that we will successfully achieve our goal of improving NetSat's working capital.

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the ground segment systems, networks, and communications services business, the nature and timing of customer orders, the extent to which we must conduct research and development efforts internally and potential acquisitions of complementary businesses, products or technologies. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements through December 31, 2003. However, we cannot assure you that there will be no change that would consume available resources significantly before that time. For example, a potential war in Iraq, as well as future events occurring in response to, or in connection with a war, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our products and services in the United States and internationally may impact our results of operations. Additional funds may not be available when needed and, even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common

stock, which could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. If adequate funds are unavailable, we may be required to delay, scale back or eliminate some of our operating activities, including, without limitation, the timing and extent of our marketing programs, the extent and timing of hiring additional personnel and our research and development activities. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

RISK FACTORS

WE HAVE A HISTORY OF OPERATING LOSSES AND NEGATIVE CASH FLOW AND EXPECT OUR LOSSES TO CONTINUE.

We have incurred significant net losses since we began operating in August 1994. We incurred net losses of $10.0 million during the six months ended December 31, 2002, $17.3 million during the fiscal year ended June 30, 2002 and $18.7 million during the fiscal year ended June 30, 2001. As of December 31, 2002, our accumulated deficit was approximately $64.2 million. We anticipate that we will continue to incur net losses. Our ability to achieve and maintain profitability will depend upon our ability to generate significant revenues through new customer contracts and the expansion of our existing products and services, including our communications services. We cannot assure you that we will be able to obtain new customer contracts or generate significant additional revenues from those contracts or any new products or services that we introduce. Even if we become profitable, we may not sustain or increase our profits on a quarterly or annual basis in the future.

SINCE SALES OF SATELLITE COMMUNICATIONS EQUIPMENT ARE DEPENDENT ON THE GROWTH OF COMMUNICATIONS NETWORKS, AS MARKET DEMAND FOR THESE NETWORKS DECLINES, OUR REVENUE AND PROFITABILITY ARE LIKELY TO DECLINE.

We derive, and expect to continue to derive, a significant amount of revenue from the sale of satellite ground segment systems and networks. If the long-term growth in demand for communications networks does not occur as we expect, the demand for our satellite ground segment systems and networks may decline or grow more slowly than we expect. As a result, we may not be able to grow our business, our revenue may decline from current levels and our results of operations may be harmed. The demand for communications networks and the products used in these networks is affected by various factors, many of which are beyond our control. For example, general economic conditions have deteriorated and affected the overall rate of capital spending by our customers. Also, many companies are finding it increasingly difficult to raise capital to finish building their communications networks and, therefore, are placing fewer orders with our customers. The current economic slowdown has resulted in a softening of demand from our customers. We believe that this slowdown is generally the result of slower than forecasted growth in a number of key segments, including communications infrastructure equipment, resulting from a reduction in the capital spending of service providers. We cannot predict the extent to which this softening of demand will continue. Further, increased competition among satellite ground segment systems and networks manufacturers has increased pricing pressures.

RISKS ASSOCIATED WITH OPERATING IN INTERNATIONAL MARKETS COULD RESTRICT OUR

ABILITY TO EXPAND GLOBALLY AND HARM OUR BUSINESS AND PROSPECTS.

We market and sell our products and services in the United States and internationally. We anticipate that international sales will continue to account for a significant portion of our total revenues for the foreseeable future with a significant portion of the international revenue coming from developing countries. We presently conduct our international sales in the following geographic areas: Africa, the Asia-Pacific Region, Australia, Central and South America, Eastern and Central Europe and the Middle East. There are some risks inherent in conducting our business internationally, including:

- general political and economic instability in international markets, including a potential war in Iraq, could impede our ability to deliver our products and services to customers and harm our results of operations;

- changes in regulatory requirements could restrict our ability to deliver services to our international customers;

- export restrictions, tariffs, licenses and other trade barriers could prevent us from adequately equipping our network facilities;

- differing technology standards across countries may impede our ability to integrate our products and services across international borders;

- protectionist laws and business practices favoring local competition may give unequal bargaining leverage to key vendors in countries where competition is scarce, significantly increasing our operating costs;

- increased expenses associated with marketing services in foreign countries could effect our ability to compete;

- relying on local subcontractors for installation of our products and services could adversely impact the quality of our products and services;

- difficulties in staffing and managing foreign operations could effect our ability to compete;

- potentially adverse taxes could adversely affect our results of operations;

- complex foreign laws and treaties could affect our ability to compete; and

- difficulties in collecting accounts receivable could adversely affect our results of operations.

These and other risks could impede our ability to manage our international operations effectively, limit the future growth of our business, increase our costs and require significant management attention.

IF WE ARE NOT SUCCESSFUL IN SELLING OUR COMMUNICATIONS SERVICES TO OUR CUSTOMERS

FOR WHOM WE HAVE HISTORICALLY PROVIDED SATELLITE GROUND SEGMENT SYSTEMS AND NETWORKS, OUR RESULTS OF OPERATIONS WILL BE HARMED.

We have historically provided our customers with satellite ground segment systems and networks on a project-by-project basis. We intend on marketing our communications services to our customers. These services not only provide the implementation of the satellite ground segment systems and networks, but also provide for the ongoing operation and maintenance of these systems and networks. If we are not successful in selling these communications services to our existing customers, it will harm our results of operations.

IF NETSAT DOES NOT EXECUTE ITS BUSINESS STRATEGY OR IF THE MARKET FOR ITS SERVICES FAILS TO DEVELOP OR DEVELOPS MORE SLOWLY THAN IT EXPECTS, OUR RESULTS OF OPERATIONS WILL BE HARMED AND OUR STOCK PRICE MAY BE ADVERSELY AFFECTED.

NetSat's revenues from data communications services have decreased during the six months ended December 31, 2002. Its future revenues will be reduced by $35.1 million due to customer contracts assigned to vendors pursuant to settlement agreements reached in October 2002 and February 2003. NetSat's future revenues and results of operations are dependent on its execution of its business strategy and development of the market for its current and future services. In particular, the current level and manner of utilization of NetSat's transponder space, as well as a decrease in orders currently being experienced, continues to harm our results of operation. Despite the agreements reached with two of the Company's vendors in October 2002 and February 2003, which modified and reduced the Company's satellite bandwidth obligations, we cannot assure you that the transponder space will be efficiently and substantially utilized or that an increase in orders will be realized. NetSat has had, and we expect will continue to have, significant cash requirements, which have and will decrease our cash resources. If NetSat does not efficiently and substantially utilize its transponder space capacity or increase its level of orders, its cash requirements may increase and our results of operations will be harmed.

CURRENCY DEVALUATIONS IN THE FOREIGN MARKETS IN WHICH WE OPERATE COULD DECREASE DEMAND FOR OUR PRODUCTS AND SERVICES.

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We denominate our foreign sales in U.S. dollars. Consequently, decreases in the value of local currencies relative to the U.S. dollar in the markets in which we operate could adversely affect the demand for our products and services by increasing the price of our products and services in the currencies of the countries in which they are sold. The difficult economic conditions in international markets and the resulting foreign currency devaluations have led to a decrease in demand for our products and services, and the decrease in bookings received by us from these foreign regions has adversely affected our results of operations for the six months ended December 31, 2002 and the fiscal year ended June 30, 2002. We expect that these negative trends will continue to adversely impact our results of operations.

YOU SHOULD NOT RELY ON OUR QUARTERLY OPERATING RESULTS AS AN INDICATION OF OUR FUTURE RESULTS BECAUSE THEY ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS, AND IF WE FAIL TO MEET THE EXPECTATIONS OF PUBLIC MARKET ANALYSTS OR INVESTORS, OUR STOCK PRICE COULD DECLINE SIGNIFICANTLY.

Our future revenues and results of operations may significantly fluctuate due to a combination of factors, including:

- delays and/or a decrease in the booking of new contracts;
- general political and economic conditions in the United States and abroad, including a potential war in Iraq;
- the length of time needed to initiate and complete customer contracts;
- the demand for and acceptance of our existing products and services;
- the cost of providing our products and services;
- the introduction of new and improved products and services by us or our competitors;
- market acceptance of new products and services;
- the mix of revenue between our standard products, custom-built products and our communications services;
- the timing of significant marketing programs;
- our ability to hire and retain additional personnel;
- the competition in our markets; and
- difficult global economic conditions and the currency devaluations in international markets, which have adversely impacted and may continue to adversely impact our quarterly results.

Accordingly, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. It is possible that in future periods our results of operations may be below the expectations of public market analysts and investors, which could cause the trading price of our common stock to decline.

OUR MARKETS ARE HIGHLY COMPETITIVE AND WE HAVE MANY ESTABLISHED COMPETITORS, AND WE MAY LOSE MARKET SHARE AS A RESULT.

The markets in which we operate are highly competitive and this competition could harm our ability to sell our products and services on prices and terms favorable to us. Our primary competitors in the satellite ground segment and networks market include vertically integrated satellite systems providers like Nippon Electric Corporation, systems integrators like IDB Systems, a division of MCI WorldCom Inc. and equipment manufacturers who also provide integrated systems like Andrew Corporation and Vertex-RSI.

In the communications services and Internet access services markets, we compete with other satellite communication companies who provide similar services, like Loral CyberStar, Inc. and PanAmSat Corporation and Verestar, as well as other ISPs. In addition, we may compete with other communications service providers, MCI WorldCom Inc., and satellite owners like New Skies Satellites N.V. and Intelsat. We anticipate that our competitors may develop or

acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. These competitors may have the financial resources to withstand substantial price competition and may be in a better position to endure difficult economic conditions in international markets, and may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances than we do that they could use to their advantage in competitive situations.

The markets in which we operate have limited barriers to entry and we expect that we will face additional competition from existing competitors and new market entrants in the future. Moreover, our current and potential competitors have established or may establish strategic relationships among themselves or with third parties to increase the ability of their products and services to address the needs of our current and prospective customers. Existing and new competitors with their potential strategic relationships may rapidly acquire significant market share, which would harm our business and financial condition.

IF THE SATELLITE COMMUNICATIONS INDUSTRY FAILS TO CONTINUE TO DEVELOP OR NEW TECHNOLOGY MAKES IT OBSOLETE OUR BUSINESS AND FINANCIAL CONDITION WILL BE HARMED.

Our business is dependent on the continued success and development of satellite communications technology, which competes with terrestrial communications transport technologies like terrestrial microwave, coaxial cable and fiber optic communications systems. Fiber optic communications systems have penetrated areas in which we have traditionally provided services. If the satellite communications industry fails to continue to develop, or any technological development significantly improves the cost or efficiency of competing terrestrial systems relative to satellite systems, then our business and financial condition would be materially harmed.

WE MAY BE UNABLE TO RAISE ADDITIONAL FUNDS TO MEET OUR CAPITAL REQUIREMENTS IN THE FUTURE.

We have incurred negative cash flows from operations in each year since our inception. We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through December 31, 2003. However, our future liquidity and capital requirements are difficult to predict, as they depend on numerous factors, including the success of our existing product and service offerings, as well as competing technological and market developments. In particular, NetSat has had significant cash requirements, which are expected to continue in the future. We may need to raise additional funds in order to meet additional working capital requirements and to support additional capital expenditures. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If adequate funds are unavailable, we may be required to delay, reduce or eliminate some of our operating activities, including marketing programs, hiring of additional personnel and research and development programs. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

A LIMITED NUMBER OF CUSTOMER CONTRACTS ACCOUNT FOR A HIGH PERCENTAGE OF OUR REVENUES, AND THE INABILITY TO REPLACE A KEY CUSTOMER CONTRACT WOULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS, BUSINESS AND FINANCIAL CONDITION.

We rely on a small number of customer contracts for a large portion of our revenues and expect that a significant portion of our revenues will continue to be derived from a limited number of customer contracts. We anticipate that our operating results in any given period will continue to depend to a significant extent upon revenues from large contracts with a small number of customers. As a result of this concentration of our customer base, an inability to replace one or more of these large customer contracts would materially adversely affect our results of operations and financial condition.

WE ANTICIPATE SIGNIFICANT REVENUES FROM FIVE CONTRACTS AND A MODIFICATION OR TERMINATION OF ALL OR ANY OF THESE CONTRACTS WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

We have agreements with five customers to provide equipment and services, which we expect to generate a substantial potion of our revenues. If any of these customers are unable to implement their business plans, the market for their services declines, or all or any of the customers modifies or terminates its agreement with us, our results of operations and financial condition would be harmed.

WE ARE PAID A FIXED PRICE IN MOST OF OUR CUSTOMER CONTRACTS, AND ANY VARIATION BETWEEN THE FIXED PRICE AND THE ACTUAL COST OF PERFORMANCE MAY HARM OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

A majority of our customer contracts are on a fixed-price basis. The profitability of these contracts is subject to inherent uncertainties in the cost of performance, including costs related to unforeseen obstacles and unexpected problems encountered in engineering, design and testing of our products and services. Because a significant portion of our revenues is dependent upon a small number of customers, if the fixed price is significantly less than the actual cost of performance on any one contract, our results of operations and financial condition could be adversely affected.

IF OUR PRODUCTS AND SERVICES ARE NOT ACCEPTED IN DEVELOPING COUNTRIES WITH EMERGING MARKETS, OUR REVENUES WILL BE IMPAIRED.

We anticipate that a substantial portion of the growth in the demand for our products and services will come from customers in developing countries due to a lack of basic communications infrastructure in these countries. However, we cannot guarantee an increase in the demand for our products and services in developing countries or that customers in these countries will accept our products and services at all. Our ability to penetrate emerging markets in developing countries is dependent upon various factors including:

- the speed at which communications infrastructure, including terrestrial microwave, coaxial cable and fiber optic communications systems, which compete with satellite-based services, is built;
- the effectiveness of our local resellers and sales representatives in marketing and selling our products and services; and
- the acceptance of our products and services by customers.

If our products and services are not accepted, or the market potential we anticipate does not develop, our revenues will be impaired.

WE DEPEND UPON CERTAIN KEY PERSONNEL AND MAY NOT BE ABLE TO RETAIN THESE EMPLOYEES.

Our future performance depends on the continued service of our key technical, managerial and marketing personnel; in particular, David Hershberg, Kenneth Miller, Stephen Yablonski and Donald Woodring. The employment of any of our key personnel could cease at any time.

UNAUTHORIZED USE OF OUR INTELLECTUAL PROPERTY BY THIRD PARTIES MAY DAMAGE OUR BUSINESS.

We regard our trademarks, trade secrets and other intellectual property as beneficial to our success. Unauthorized use of our intellectual property by third parties may damage our business. We rely on trademark, trade secret and patent protection and contracts, including confidentiality and license agreements with our employees, customers, strategic collaborators, consultants and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our authorization.

We currently have been granted two patents in the United States, one for remote access to the Internet using satellites, and the other for satellite communication with automatic frequency control, and have two patent applications pending in the United States and one Patent Cooperation Treaty ("PCT") patent application pending for

implementing fax and data communications using Internet protocols. We also intend to seek further patents on our technology, if appropriate. We cannot assure you that patents will be issued for any of our pending or future patents or that any claims allowed from such applications will be of sufficient scope, or be issued in all countries where our products and services can be sold, to provide meaningful protection or any commercial advantage to us. Also, our competitors may be able to design around our patents. The laws of some foreign countries in which our products and services are or may be developed, manufactured or sold may not protect our products and services or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products and services more likely.

We have filed applications for trademark registration of Globecomm Systems Inc., Globecomm, and GSI in the United States and various other countries, and have been granted registrations for some of these terms in Europe and Russia. We have received trademark registrations for NetSat in the United States, the European Community, Russia, and Brazil. We have various other trademarks registered or pending for registration in the United States and in other countries and may seek registration of other trademarks and service marks in the future. We cannot assure you that registrations will be granted from any of our pending or future applications, or that any registrations that are granted will prevent others from using similar trademarks in connection with related goods and services.

DEFENDING AGAINST INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS COULD BE TIME CONSUMING AND EXPENSIVE, AND IF WE ARE NOT SUCCESSFUL, COULD CAUSE SUBSTANTIAL EXPENSES AND DISRUPT OUR BUSINESS.

We cannot be sure that our products, services, technologies, and advertising we employ in our business do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Prosecuting infringers and defending against intellectual property infringement claims could be time consuming and expensive, and regardless of whether we are or are not successful, could cause substantial expenses and disrupt our business. We may incur substantial expenses in defending against these third party claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability and/or may materially disrupt the conduct of, or necessitate the cessation of, our business.

WE MAY NOT BE ABLE TO KEEP PACE WITH TECHNOLOGICAL CHANGES, WHICH WOULD MAKE OUR PRODUCTS AND SERVICES BECOME NON-COMPETITIVE AND OBSOLETE.

The telecommunications industry, including satellite-based communications services, is characterized by rapidly changing technologies, frequent new product and service introductions and evolving industry standards. If we are unable, for technological or other reasons, to develop and introduce new products and services or enhancements to existing products and services in a timely manner or in response to changing market conditions or customer requirements, our products and services would become non-competitive and obsolete, which would harm our business, results of operations and financial condition.

WE DEPEND ON OUR SUPPLIERS, SOME OF WHICH ARE OUR SOLE OR A LIMITED SOURCE OF SUPPLY, AND THE LOSS OF THESE SUPPLIERS WOULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

We currently obtain most of our critical components and services from single or limited sources and generally do not maintain significant inventories or have long-term or exclusive supply contracts with our source vendors. We have from time to time experienced delays in receiving products from vendors due to lack of availability, quality control or manufacturing problems, shortages of materials or components or product design difficulties. We may experience delays in the future and replacement services or products may not be available when needed, or at all, or at commercially reasonable rates or prices. If we were to change some of our vendors, we would have to perform additional testing procedures on the service or product supplied by the new vendors, which would prevent or delay the availability of our products and services. Furthermore, our costs could increase significantly if we need to change vendors. If we do not get timely deliveries of quality products and services, or if there are significant increases in the prices of these products or services, it could have a material adverse effect on our business, results of operations and financial condition.

WE RELY ON NETSAT, OUR WHOLLY-OWNED SUBSIDIARY, FOR NETWORK SERVICES. IF ITS BUSINESS FAILS OR WE ARE OTHERWISE UNABLE TO CONTINUE TO RELY ON NETSAT FOR THIS SERVICE, OUR BUSINESS MAY BE HARMED.

We currently depend on NetSat for our network services. We do not have

a long-term agreement in place with NetSat, as most of our needs are filled on a purchase order basis. If NetSat is unable to develop its business or if we are unable to continue to rely on their network services, then we will have to find alternative suppliers. If we are unable to find another supplier of network services or if we are unable to find one on terms favorable to us, then our business may be harmed.

OUR NETWORK MAY EXPERIENCE SECURITY BREACHES, WHICH COULD DISRUPT OUR SERVICES.

Our network infrastructure may be vulnerable to computer viruses, break-ins, denial of service attacks and similar disruptive problems caused by our customers or other Internet users. Computer viruses, break-ins, denial of service attacks or other problems caused by third parties could lead to interruptions, delays or cessation in service to our customers. There currently is no existing technology that provides absolute security, and the cost of minimizing these security breaches could be prohibitively expensive. We may face liability to customers for such security breaches. Furthermore, these incidents could deter potential customers and adversely affect existing customer relationships.

SATELLITES UPON WHICH WE RELY MAY BE DAMAGED OR LOST, OR MALFUNCTION.

The damage, loss or malfunction of any of the satellites used by us, or a temporary or permanent malfunction of any of the satellites upon which we rely, would likely result in the interruption of our satellite-based communications services. This interruption would have a material adverse effect on our business, results of operations and financial condition.

OUR STOCK PRICE IS HIGHLY VOLATILE.

Our stock price has fluctuated substantially since our initial public offering, which was completed in August 1997. The market price for our common stock, like that of the securities of many telecommunications and high technology industry companies, is likely to remain volatile based on many factors, including the following:

- quarterly variations in operating results;
- announcements of new technology, products or services by us or any of our competitors;
- acceptance of satellite-based communication services and Internet access services in developing countries with emerging markets;
- changes in financial estimates or recommendations by security analysts; or
- general market conditions, including, but not limited to, a potential war in Iraq.

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. We may become involved in this type of litigation in the future. Litigation of this type is often extremely expensive and diverts management's attention and resources, which could significantly harm our business.

A THIRD PARTY COULD BE PREVENTED FROM ACQUIRING YOUR SHARES OF STOCK AT A PREMIUM TO THE MARKET PRICE BECAUSE OF OUR ANTI-TAKEOVER PROVISIONS.

Various provisions with respect to votes in the election of directors, special meetings of stockholders, and advance notice requirements for

stockholder proposals and director nominations of our amended and restated certificate of incorporation, bylaws and Section 203 of the General Corporation Laws of the State of Delaware could make it more difficult for a third party to acquire us, even if doing so might be beneficial to you and our other stockholders. In addition, we have a poison pill in place that could make an acquisition of us by a third party more difficult.

RISKS RELATED TO GOVERNMENT APPROVALS

WE ARE SUBJECT TO MANY GOVERNMENT REGULATIONS, AND FAILURE TO COMPLY WITH THEM WILL HARM OUR BUSINESS.

OPERATIONS AND USE OF SATELLITES

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communication Commission, or FCC, licensed earth stations in Hauppauge, New York, subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of FCC. Pursuant to the FCC Act and rules, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. These licenses should be renewed by the FCC in the normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that the FCC will grant additional licenses when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our earth stations. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our earth stations.

FOREIGN OWNERSHIP

We may, in the future, be required to seek FCC approval for foreign ownership if we operate as a common carrier and foreign ownership of our stock exceeds the specified criteria. Failure to comply with these policies may result in an order to divest the offending foreign ownership, fines, denial of license renewal, and/or license revocation proceedings against the licensee by the FCC.

FOREIGN REGULATIONS

Regulatory schemes in countries in which we may seek to provide our satellite-delivered data communications services may impose impediments on our operations. Some countries in which we intend to operate have telecommunications laws and regulations that do not currently contemplate technical advances in telecommunications technology like Internet/intranet transmission by satellite. We cannot assure you that the present regulatory environment in any of those countries will not be changed in a manner, which may have a material adverse impact on our business. Either we or our local partners typically must obtain authorization for each country in which we provide our satellite-delivered data communications services. The regulatory schemes in each country are different, and thus there may be instances of noncompliance of which we are not aware. We cannot assure you that our licenses and approvals are or will remain sufficient

in the view of foreign regulatory authorities, or that necessary licenses and approvals will be granted on a timely basis in all jurisdictions in which we wish to offer our products and services or that restrictions applicable thereto will not be unduly burdensome.

REGULATION OF THE INTERNET

Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues including user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications. It is anticipated that a substantial portion of our Internet operations will be carried out in countries that may impose greater regulation of the content of information coming into the country than that which is generally applicable in the United States; for example, privacy regulations in 35 countries in Europe and content restrictions in countries such as the Republic of China. To the extent that we provide content as a part of our Internet services, it will be subject to laws regulating content. Moreover, the adoption of laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our Internet services or increase our cost of doing business or in some other manner have a material adverse effect on our business, operating results and financial condition. In addition, the applicability of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel, court jurisdiction and personal privacy to the Internet is uncertain. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique

issues of the Internet and related technologies. Changes to these laws intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace which could reduce demand for our products and services, could increase our cost of doing business as a result of costs of litigation or increased product development costs, or could in some other manner have a material adverse effect on our business, financial condition and results of operations.

TELECOMMUNICATIONS TAXATION, SUPPORT REQUIREMENTS, AND ACCESS CHARGES

All telecommunications carriers providing domestic services in the United States are required to contribute a portion of their gross revenues for the support of universal telecommunications services; and some telecommunications services are subject to special taxation and to contribution requirements to support services to special groups, like persons with disabilities. Our services may be subject to new or increased taxes and contribution requirements that could affect our profitability, particularly if we are not able to pass them through to customers for either competitive or regulatory reasons.

Internet services are currently exempt from charges that long distance telephone companies pay for access to the networks of local telephone companies

in the United States. Efforts have been made from time to time, and may be made again in the future, to eliminate this exemption. If these access charges are imposed on telephone lines used to reach Internet service providers and/or if flat rate telephone services for Internet access are eliminated or curtailed, the cost to customers who access our satellite facilities using telephone company-provided facilities could increase to an extent that could discourage the demand for our services. Likewise, the demand for our services in other countries may be affected by the availability and cost of local telephone or other telecommunications facilities to reach our facilities.

EXPORT OF TELECOMMUNICATIONS EQUIPMENT

The sale of our ground segment systems, networks, and communications services outside the United States is subject to compliance with the regulations of the United States Export Administration Regulations. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In addition, in order to ship our products into other countries, the products must satisfy the technical requirements of that particular country. If we were unable to comply with such requirements with respect to a significant quantity of our products, our sales in those countries could be restricted, which could have a material adverse effect on our business, results of operations and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to a variety of risks, including foreign currency exchange rate fluctuations relating to certain purchases from foreign vendors. In the normal course of business, we assess these risks and have established policies and procedures to manage our exposure to fluctuations in foreign currency values.

Our objective to managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates for certain purchases from foreign vendors, if applicable. Accordingly, we utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. During the six months ended December 31, 2002 and the fiscal year ended June 30, 2002, we had no such foreign currency forward contracts.

Our results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from our investment of available cash balances in money market funds with portfolios of investment grade corporate and government securities, and secondly, our fixed long-term capital lease agreement. Under our current positions, we do not use interest rate derivative instruments to manage exposure to interest rate changes.

ITEM 4. CONTROLS AND PROCEDURES

QUARTERLY EVALUATION OF THE COMPANY'S DISCLOSURE CONTROLS AND INTERNAL CONTROLS.

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision of and with the participation

of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the disclosure controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

On August 6, 2002, we issued a notice of termination to a major customer in the Middle East for failure to pay for services rendered, and included a demand for full payment of the past due balance and specified liquidated damages for early termination. The customer responded by issuing its own notice of termination claiming certain breaches of the contract by NetSat, which claims we have denied. The contract requires settlement of disputes by arbitration to be held in New York. We intend to fully pursue all available remedies to recover monies owed for services rendered and for liquidated damages, including arbitration if required and have retained outside counsel to assist in this matter. To that end, NetSat initiated the arbitration process in December 2002 when its outside counsel prepared and served NetSat's Notice of Arbitration and Statement of Claim on the terminated Middle East customer. In January 2003, NetSat nominated its proposed arbitrator to preside over the arbitration.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Company's Annual Meeting of Stockholders was held on November 21, 2002 (the "Annual Meeting").

(b) The matters voted upon at the Annual Meeting and the results of the voting were as follows:

(i) The following individuals were elected by the Stockholders to serve as Directors:

Board Member	For	Against
Richard E. Caruso	10,553,490	88,064
David E. Hershberg	10,582,081	59,473
Brian T. Maloney	10,550,941	90,613
Kenneth A. Miller	10,608,790	32,764
A. Robert Towbin	10,611,541	30,013
Daniel S. Van Riper	10,608,241	33,313

C.J. Waylan	10,554,291	87,263
Stephen C. Yablonski	10,608,475	33,079

(ii) The appointment of Ernst & Young LLP as independent auditors of the Company to serve for the year ending June 30, 2003 was voted upon as follows: 10,625,468 shares for; 8,805 shares against; and 7,281 shares abstaining.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Index to Exhibits:

Exhibit No.

3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).

3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).

4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the "Registration Statement")).

10.1 Form of Registration Rights Agreement dated as of February 1997 (incorporated by reference to Exhibit 10.1 of the Registration Statement).

10.2 Form of Registration Rights Agreement dated May 30, 1996 (incorporated by reference to Exhibit 10.2 of the Registration Statement).

10.3 Form of Registration Rights Agreement dated December 31, 1996, as amended (incorporated by reference to Exhibit 10.3 of the Registration Statement).

10.4 Letter Agreement for purchase and sale of 199,500 shares of Common Stock dated November 9, 1995 between the Registrant and Thomson-CSF (incorporated by reference to Exhibit 10.4 of the Registration Statement).

10.5 Investment Agreement dated February 12, 1996 by and between Shiron Satellite Communications (1996) Ltd. and the Registrant (incorporated by reference to Exhibit 10.5 of the Registration Statement).

10.6*	Stock Purchase Agreement dated as of August 30, 1996 by and between C-Grams Unlimited Inc. and the Registrant (incorporated by reference to Exhibit 10.6 of the Registration Statement).
10.7	Memorandum of Understanding dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to Exhibit 10.7 of the Registration Statement).
10.8	Stock Purchase Agreement dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by reference to Exhibit 10.8 of the Registration Statement).
10.9	Employment Agreement dated as of January 27, 1997 between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registration Statement).
10.10	Employment Agreement dated as of January 27, 1997 between the Registrant and Kenneth A. Miller (incorporated by reference to Exhibit 10.10 of the Registration Statement).
10.11	Purchase and Sale Agreement, 45 Oser Avenue, Hauppauge, New York, dated December 12, 1996 by and between Eaton Corporation and the Registrant (incorporated by reference to Exhibit 10.13 of the Registration Statement).
10.12	1997 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 of the Registration Statement).

10.13	Investment Agreement dated August 21, 1998 by and between McKibben Communications LLC and the Registrant (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
10.14	1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the S-8 Registration Statement).
10.15	Rights Agreement, dated as of December 3, 1998, between the Company and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Company's Current Report on Form 8-K dated December 3, 1998).
10.16	Common Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and Globix Corporation (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).
10.17	Series A Preferred Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and George Soros (incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

10.18 Common Stock Purchase Agreement dated October 28, 1999 between NetSat Express, Inc., Globecomm Systems Inc. and Reuters Holdings Switzerland SA (incorporated by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 1999).

10.19 Negotiable Promissory Note, dated April 1, 2001, between the Registrant and Donald Woodring (incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the year ended June 30, 2001).

10.20 Employment Agreement, dated as of October 9, 2001, by and between Stephen C. Yablonski and the Company (incorporated by reference to Exhibit 10.20 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.21 Employment Agreement, dated as of October 9, 2001, by and between Andrew C. Melfi and the Company (incorporated by reference to Exhibit 10.21 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.22 Employment Agreement, dated as of October 9, 2001, by and between Donald G. Woodring and the Company (incorporated by reference to Exhibit 10.22 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.23 Employment Agreement, dated as of October 9, 2001, by and between Paul J. Johnson and the Company (incorporated by reference to Exhibit 10.23 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.24 Employment Agreement, dated as of October 9, 2001, by and between Paul Eterno and the Company (incorporated by reference to Exhibit 10.24 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.25 Promissory Note Secured By Stock Pledge Agreement, dated September 4, 2001, by and between David E. Hershberg and the Company (incorporated by reference to Exhibit 10.25 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

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10.27 Employment Agreement, dated as of January 25, 2002, by and between G. Patrick Flemming and the Company (incorporated by reference to Exhibit 10.27 of the Company's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2001).

10.28** Settlement Agreement, dated as of October 1, 2002, by and between Loral Skynet(R), a division of Loral SpaceCom Corporation and the Company (incorporated by reference to Exhibit 10.28 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2002).

10.29 Separation Agreement and General Release, dated as of January 22, 2003, by and between G. Patrick Flemming and the Company (filed herewith).

10.30 Letter Agreement, dated as of January 31, 2003, by and between Donald G. Woodring and the Company (filed herewith).

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

99.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Confidential treatment granted for portions of this agreement.

** Application has been made to the Securities and Exchange Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed with the Securities and Exchange Commission.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on October 29, 2002 with respect to an agreement with one of its vendors to reduce its future satellite bandwidth obligations.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLOBECOMM SYSTEMS INC.
(Registrant)

Date: February 14, 2003

/s/ DAVID E. HERSHBERG

David E. Hershberg
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2003

/s/ ANDREW C. MELFI

Andrew C. Melfi
Vice President, Chief Financial
Officer and Treasurer (Principal
Financial and Accounting Officer)

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CERTIFICATION FOR FORM 10-Q
FOR PERIOD ENDED DECEMBER 31, 2002

I, David E. Hershberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Globecomm Systems Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in

internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ DAVID E. HERSHBERG

David E. Hershberg
Chairman of the Board and
Chief Executive Officer

CERTIFICATION FOR FORM 10-Q
FOR PERIOD ENDED DECEMBER 31, 2002

I, Andrew C. Melfi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Globecomm Systems Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ ANDREW C. MELFI

Andrew C. Melfi
Vice President, Chief Financial
Officer and Treasurer

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