

GLOBECOMM SYSTEMS INC

Form 10-Q

November 10, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**(MARK ONE)**

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

**For the quarterly period ended September 30, 2008**

**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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
Yes  No

As of November 6, 2008, there were 20,443,390 shares of the registrant's Common Stock outstanding.

**GLOBECOMM SYSTEMS INC.**  
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**GLOBECOMM SYSTEMS INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)**

	<b>September 30, 2008 (Unaudited)</b>	<b>June 30, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 56,612	\$ 51,399
Accounts receivable, net	34,551	52,106
Inventories	16,888	16,444
Prepaid expenses and other current assets	1,485	1,402
Deferred income taxes	829	1,017
 Total current assets	 110,365	 122,368
 Fixed assets, net	 33,071	 33,379
Goodwill	22,197	22,197
Intangibles, net	2,500	2,599
Deferred income taxes	11,496	11,496
Other assets	1,066	1,053
 Total assets	 \$ 180,695	 \$ 193,092
 <b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 17,829	\$ 25,650
Deferred revenues	6,073	10,004
Accrued payroll and related fringe benefits	3,531	5,848
Other accrued expenses	1,725	1,759
Deferred liabilities	49	98
 Total current liabilities	 29,207	 43,359
 Other liabilities	 947	 957
 Commitments and contingencies		
 Stockholders equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at September 30, 2008 and June 30, 2008	21	21

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Common stock, \$.001 par value, 50,000,000 shares authorized, shares issued:

20,897,641 at September 30, 2008 and 20,695,466 at June 30, 2008

Additional paid-in capital	183,020	182,083
Accumulated deficit	(29,719)	(30,547)
Treasury stock, at cost, 465,351 shares at September 30, 2008 and June 30, 2008	(2,781)	(2,781)

Total stockholders' equity	150,541	148,776
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Total liabilities and stockholders' equity	\$ 180,695	\$ 193,092
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See accompanying notes.

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**GLOBECOMM SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>
Revenues from infrastructure solutions	\$ 23,539	\$ 26,798
Revenues from services	18,816	15,544
Total revenues	42,355	42,342
Costs and operating expenses:		
Costs from infrastructure solutions	20,300	21,184
Costs from services	14,205	11,106
Selling and marketing	3,113	2,525
Research and development	311	497
General and administrative	3,661	4,075
Total costs and operating expenses	41,590	39,387
Income from operations	765	2,955
Interest income	264	520
Interest (expense)		(285)
Income before income taxes	1,029	3,190
Provision for income taxes	201	167
Net income	\$ 828	\$ 3,023
Basic net income per common share	\$ 0.04	\$ 0.17
Diluted net income per common share	\$ 0.04	\$ 0.16
Weighted-average shares used in the calculation of basic net income per common share	20,152	17,829
Weighted-average shares used in the calculation of diluted net income per common share	20,690	18,815

See accompanying notes.





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**GLOBECOMM SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008**  
(In thousands)  
(Unaudited)

	<b>Common Stock</b>		<b>Additional</b>		<b>Accumulated</b>		<b>Treasury Stock</b>		<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>		<b>Deficit</b>		<b>Shares</b>	<b>Amount</b>	<b>Stockholders</b>
			<b>Capital</b>						<b>Equity</b>
Balance at June 30, 2008	20,695	\$ 21	\$ 182,083		\$ (30,547)		465	\$ (2,781)	\$ 148,776
Proceeds from exercise of stock options	12		55						55
Stock compensation expense			881						881
Grant of restricted shares	190								
Tax benefit from stock compensation plan			1						1
Net income					828				828
Balance at September 30, 2008	20,897	\$ 21	\$ 183,020		\$ (29,719)		465	\$ (2,781)	\$ 150,541

See accompanying notes.

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**GLOBECOMM SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>
<b>Operating Activities:</b>		
Net income	\$ 828	\$ 3,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,371	1,559
Provision for doubtful accounts	190	76
Deferred income taxes	188	88
Stock compensation expense	881	85
Tax benefit from stock compensation plan	1	8
Changes in operating assets and liabilities:		
Accounts receivable	17,365	8,775
Inventories	(444)	(5,326)
Prepaid expenses and other current assets	(83)	1,446
Other assets	(13)	(34)
Accounts payable	(7,821)	(3,347)
Deferred revenue	(3,931)	1,912
Accrued payroll and related fringe benefits	(2,317)	(2,427)
Other accrued expenses	(34)	(25)
Other liabilities	(59)	(53)
Net cash provided by operating activities	6,122	5,760
<b>Investing Activities:</b>		
Purchases of fixed assets	(964)	(808)
Net cash used in investing activities	(964)	(808)
<b>Financing Activities:</b>		
Proceeds from exercise of stock options	55	267
Proceeds from offering, net		36,434
Repayments of debt		(15,806)
Net cash provided by financing activities	55	20,895

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Net increase in cash and cash equivalents	5,213		25,847
Cash and cash equivalents at beginning of period	51,399		25,558
Cash and cash equivalents at end of period	\$ 56,612	\$	51,405
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$	\$	385
Cash paid for income taxes	178		34

See accompanying notes.

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**GLOBECOMM SYSTEMS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008  
(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, 2008 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 months ended September 30, 2008, are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2009, 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, 2008 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 15, 2008.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Globecomm Network Services Corporation ( GNSC ), Globecomm Services Maryland LLC ( GSM ) and Cachendo LLC ( Cachendo ).

*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. 104 ( SAB 104 ), Revenue Recognition, 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 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 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

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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 customer's 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 customer's 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 direct costs. Anticipated contracted losses are recognized, as they become known.

Revenues from services consist of managed network services and lifecycle support services for a broad variety of communications applications. Service revenues are recognized ratably over the period in which services are provided. Payments received in advance of services are deferred until the period such services are provided and are presented as deferred revenues in the accompanying consolidated balance sheets.

*Costs from Infrastructure Solutions*

Costs from infrastructure solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor salaries.

*Costs from Services*

Costs from services relating to Internet-based services consist primarily of satellite space segment charges, Internet connectivity fees, voice termination costs and network operations expenses and labor for our professional engineering services. 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 satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operation centers, on a twenty-four hour a day, seven-day a week basis, including personnel and related costs and depreciation.

*Research and Development*

Research and development expenditures are expensed as incurred.

*Stock-Based Compensation*

The Company accounts for stock based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS 123 ( SFAS 123R ). Stock compensation expense was approximately \$881,000 and \$85,000 for the three months ended September 30, 2008 and 2007, respectively. The expense in the three months ended September 30, 2008 includes approximately \$675,000 related to the accelerated vesting of the Company's former President's outstanding restricted stock awards due to his passing away on July 20, 2008. As of September 30, 2008, there was approximately \$328,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 2.5 years. As of September 30, 2008, there was approximately \$2,237,000 of unrecognized compensation cost related to non-vested stock-based compensation related to restricted shares. The cost is expected to be recognized over a weighted-average period of 2.6 years.

**Table of Contents***Goodwill and Other Intangible Assets*

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. 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 impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment.

The net carrying value of goodwill was approximately \$22,197,000 at September 30, 2008, which related to the services reporting unit. The Company performs the goodwill impairment test annually in the fourth quarter. There have been no events during the three months ended September 30, 2008 that would indicate that goodwill was impaired.

Intangibles subject to amortization consist of the following:

	<b>September 30, 2008 (in thousands)</b>
Customer relationships	\$ 3,000
Covenants not to compete	60
	3,060
Less accumulated amortization	560
Intangibles, net	2,500

Amortization is calculated using the straight-line method over the estimated useful lives of the assets. The useful lives were estimated as 8 years and 3 years for customer relationships and covenants not to compete, respectively. Amortization expense of approximately \$99,000 was included in general and administrative expenses in the three months ended September 30, 2008.

Total remaining amortization expense for the following fiscal years related to these intangible assets is expected to be as follows (in thousands):

2009	\$ 296
2010	392
2011	375
2012	375
2013	375

*Income Taxes**Deferred Tax Assets*

Consistent with the provisions of SFAS No. 109, Accounting for Income Taxes, ( FAS 109 ), the Company regularly estimates the ability to recover deferred income taxes, and report such deferred tax assets at the amount that is determined to be more-likely-than-not recoverable, and estimates income taxes in each of the taxing jurisdictions in which the Company operates. This process involves estimating current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenue and expenses for tax and accounting purposes. These differences may result in deferred tax assets and

liabilities, which are included in the consolidated balance sheet. The Company is required to assess the likelihood that the deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, a valuation allowance must be provided based on estimates of future

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taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for current and deferred taxes involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations. This evaluation considers several factors, including an estimate of the likelihood of generating sufficient taxable income in future periods, the effect of temporary differences, the expected reversal of deferred tax liabilities, and available tax planning strategies.

*Uncertainty in Tax Positions*

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that the Company recognize in its financial statements the benefits of tax return positions if that tax position is more likely than not of being sustained on audit, based on its technical merits. The adoption of this pronouncement on July 1, 2007 did not have an impact on the financial statements of the Company.

Unrecognized tax benefits at September 30, 2008 and June 30, 2008 which, if recognized in the future, would favorably impact the Company s effective tax rate were not material. The Company records both accrued interest and penalties related to income tax matters, if any, in the provision for income taxes in the accompanying consolidated statements of operations. At September 30, 2008 and June 30, 2008, the Company had not accrued any amounts for the potential payment of penalties and interest.

*Product Warranties*

The Company offers warranties on its contracts, the specific terms and conditions of which vary depending upon the contract and work performed. Generally, a basic limited warranty, including parts and labor, is provided to customers for one year. The Company can recoup certain of these costs through product warranties it holds with its original equipment manufacturers, which typically are one year in term. Historically, warranty expense has been minimal, however, management periodically assesses the need for any additional warranty reserve.

*Recent Accounting Pronouncements*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 establishes a common definition for fair value under accounting principles generally accepted in the United States, establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. SFAS 157 was effective for fiscal years beginning after November 15, 2007. The adoption of this pronouncement on July 1, 2008 did not have a material impact on the financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations revised ( SFAS 141R ). SFAS 141R provides additional guidance and standards for the acquisition method of accounting to be used for all business combinations. Changes for business combination transactions pursuant to SFAS 141R include, among others, expensing acquisition-related transaction costs as incurred, the recognition of contingent consideration arrangements at their acquisition date fair value and capitalization of in-process research and development assets acquired at their acquisition date fair value. SFAS141R will be effective for all business combinations consummated beginning July 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ( SFAS 159 ). This statement provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS 159 was effective for fiscal years beginning after November 15, 2007. SFAS 159 was effective



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for the Company beginning on July 1, 2008. The adoption of this pronouncement did not have a material impact on the financial statements.

**2. Basic and Diluted Net Income Per Common Share**

The Company computes net income per share in accordance with the provisions of SFAS No. 128, Earnings Per Share. Basic net income per common share is computed by dividing the net income for the period by the weighted-average number of common shares outstanding for the period. For diluted earnings per share the weighted average shares include the incremental common shares issuable upon the exercise of stock options, warrants, and unvested restricted shares (using the treasury stock method). The incremental common shares for stock options, warrants and unvested restricted shares are excluded from the calculation of diluted net income per share, if their effect is anti-dilutive. Diluted net income per share for the three months ended September 30, 2008 and 2007, excludes the effect of approximately 590,000 and 276,000 stock options and unvested restricted shares in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive.

**3. Inventories**

Inventories consist of the following:

	<b>September 30, 2008 (Unaudited)</b>	<b>June 30, 2008</b>
	<b>(In thousands)</b>	
Raw materials and component parts	\$ 185	\$ 187
Work-in-progress	19,106	20,183
	19,291	20,370
Less progress payments	2,403	3,926
	<b>\$ 16,888</b>	<b>\$ 16,444</b>

**4. Segment Information**

The Company operates through two business segments. Its infrastructure solutions segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems and networks. Its services segment, through GNCS, GSM and Cachendo, provides satellite communication services capabilities.

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.

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The following is the Company's business segment information for the three months ended September 30, 2008 and 2007 and as of September 30, 2008 and June 30, 2008:

	<b>Three Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
Revenues:		
Infrastructure solutions	\$ 23,576	\$ 26,798
Services	19,021	15,664
Intercompany eliminations	(242)	(120)
Total revenues	\$ 42,355	\$ 42,342
Income (loss) from operations:		
Infrastructure solutions	\$ (1,638)	\$ 753
Services	2,392	2,197
Interest income	264	520
Interest expense		(285)
Intercompany eliminations	11	5
Income before income taxes	\$ 1,029	\$ 3,190
Depreciation and amortization:		
Infrastructure solutions	\$ 508	\$ 490
Services	874	1,080
Intercompany eliminations	(11)	(11)
Total depreciation and amortization	\$ 1,371	\$ 1,559
Expenditures for long-lived assets:		
Infrastructure solutions	\$ 408	\$ 487
Services	556	321
Total expenditures for long-lived assets	\$ 964	\$ 808
	<b>September 30, 2008</b>	<b>June 30, 2008</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	

Assets:		
Infrastructure solutions	\$ 203,058	\$ 216,023
Services	47,941	46,358
Intercompany eliminations	(70,304)	(69,289)
Total assets	\$ 180,695	\$ 193,092

**5. Debt**

On January 25, 2008, the Company entered into a secured credit facility with Citibank, N.A, which expires on December 31, 2008. The credit facility is comprised of a \$50 million borrowing base line of credit (the Line )

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and a foreign exchange line in the amount of \$10 million. The Line includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$20 million available for commercial letters of credit; (c) \$25 million term line to be used for acquisitions; and (d) \$7.5 million available for direct borrowings. Advances under the Line bear interest at the prime rate or LIBOR plus 175 basis points, at the discretion of the Company, and is collateralized by a first priority security interest on all of the assets of the Company. The Company is required to comply with various ongoing financial covenants, including with respect to the Company's leverage ratio, liquidity ratio, minimum cash balance, debt service ratio and minimum capital base, with which the Company was in compliance at September 30, 2008. The credit facility is uncommitted and advances are subject to Citibank, N.A.'s approval. As of September 30, 2008, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately \$8.1 million, which were applied against and reduced the amounts available under the credit facility.

**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, uncertain 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 revenues. 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**

Our business is global and subject to technological and business trends in the telecommunications marketplace. We derive much of our revenue from government and government related entities (government marketplace) and developing countries. Our business is therefore affected by government spending and geopolitical developments involving areas of the world in which our customers are located, particularly in developing countries and areas of the world involved in armed conflicts.

The products and services we offer include: pre-engineered systems, systems design and integration services, managed network services and life cycle support services. To provide these products and services, we engineer all the necessary satellite and terrestrial facilities as well as provide the integration services required to implement those facilities. We also operate and maintain managed networks and provide life cycle support services on an ongoing basis. Our customers generally have network service requirements that include point-to-point or point-to-multipoint connections via a hybrid network of satellite and terrestrial facilities. In addition to the government marketplace, these customers are communications service providers, commercial enterprises and media and content broadcasters.

Since our products and services are often sold into areas of the world which do not have fiber optic land-based networks, a portion of our revenues is derived from, and is expected to continue to be derived from, developing countries. These countries carry with them more enhanced risks of doing business than in developed areas of the world, including the possibility of armed conflicts or the risk that more advanced land-based telecommunications will be implemented over time.

For the last several years, the U.S. and global economies have been growing and our revenues and profits have increased as our customers have increased their spending on telecommunications equipment and systems. However, recent adverse conditions in the U.S. consumer mortgage market have negatively impacted the global economy and nearly all businesses, including ours, are facing uncertain economic environments. Our business has been negatively affected in the past by uncertain economic environments both in the overall market, and more

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specifically in the telecommunications sector. As a result of the current global economic conditions, our customers may reduce their budgets for spending on telecommunications equipment and systems. As a consequence, our current customers and other prospective customers may postpone, reduce or even forego the purchase of our products, systems and services, which could adversely affect our revenues and profitability. It is currently difficult to assess whether or not future bookings will meet or exceed the levels experienced in the recent past.

In the three months ended September 30, 2008, 23% and 12% of our revenues were generated by sales to a U.S. government agency and a provider of telecommunications services in Asia, respectively. Although the identity of customers and contracts may vary from period to period, we have been, and expect to continue to be, dependent on revenues from a small number of customers or contracts in each period in order to meet our financial goals. From time to time these customers are located in developing countries or otherwise subject to unusual risks.

Revenues related to contracts for infrastructure solutions and 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 direct costs. Anticipated contract losses are recognized, as they become known. Costs from infrastructure solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor salaries. Costs from services consist primarily of satellite space segment charges, voice termination costs, network operations expenses 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 the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations centers on a twenty-four hour a day, seven day a week basis, including personnel and related costs and depreciation. 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. General and administrative expenses consist of expenses associated with our management, finance, contract and administrative functions.

**Critical Accounting Policies**

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, the 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 Staff Accounting Bulletin No. 104 ( SAB 104 ), Revenue Recognition, 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 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 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



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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 customer's 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 customer's 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 inventories balance.

The timing of our revenue recognition is primarily driven by achieving shipment, final acceptance or other contractual milestones. Project risks including project complexity, political and economic instability in certain regions in which we operate, export restrictions, tariffs, licenses and other trade barriers which may result in the delay of the achievement of revenue milestones. A delay in achieving a revenue milestone may negatively impact our results of operations.

***Costs from Infrastructure 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. Typically, these contracts are fixed price projects. We use estimates of the costs applicable to various elements which we believe are reasonable. Our estimates, are assessed continually during the term of these contracts and costs are subject to revisions as the contract progresses to completion. These estimates are subjective based on management's assessment of project risk. These risks may include project complexity and political and economic instability in certain regions in which we operate. Revisions in cost estimates are reflected in the period in which they become known. A significant revision in an estimate may negatively impact our results of operations. In the event an estimate indicates that a loss will be incurred at completion, we record the loss as it becomes known.

***Goodwill Impairment***

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. 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 impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The impairment test is dependent upon estimated future cash flows of the services segment. There have been no events during the three months ended September 30, 2008 that would indicate that goodwill is impaired.

***Deferred tax assets***

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Consistent with the provisions of SFAS No. 109, Accounting for Income Taxes, ( FAS 109 ) we regularly estimate our ability to recover deferred income taxes, and report such deferred tax assets at the amount that is determined to be more-likely-than-not recoverable, and we have to estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenue and expenses for tax and accounting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheet.

We are required to assess the likelihood that our deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we have to provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for current and deferred taxes involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations. This evaluation considers several factors, including an estimate of the likelihood of generating sufficient taxable income in future periods, the effect of temporary differences, the expected reversal of deferred tax liabilities and available tax planning strategies.

### ***Stock-Based Compensation***

We account for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123R (revised 2004), Share-Based Payment, which is a revision of SFAS 123 ( SFAS 123R ). Under the fair value recognition provisions of FAS 123R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the appropriate vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, and the expected volatility of our stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on our consolidated financial statements.

### ***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 creditworthiness of the customer. An assessment of the inherent risks in conducting our business with foreign customers is also made since a significant portion of our revenues is international. Management specifically analyzes accounts receivable, historical bad debts, customer concentrations, customer creditworthiness 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.

### ***Recent Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 establishes a common definition for fair value under accounting principles generally accepted in the United States, establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. SFAS 157 was effective for fiscal years beginning after November 15, 2007. The adoption of this pronouncement on July 1, 2008 did not have a material impact on our financial statements.



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In December 2007, the FASB issued SFAS No. 141R, Business Combinations revised ( SFAS 141R ). SFAS 141R provides additional guidance and standards for the acquisition method of accounting to be used for all business combinations. Charges for business combination transactions pursuant to SFAS 141R include, among others, expensing acquisition-related transaction costs as incurred, the recognition of contingent consideration arrangements at their acquisition date fair value and capitalization of in-process research and development assets acquired at their acquisition date fair value. FAS141R will be effective for all business combinations consummated beginning July 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ( SFAS 159 ). This statement provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS 159 was effective for fiscal years beginning after November 15, 2007. Accordingly, SFAS 159 was effective for us beginning on July 1, 2008. The adoption of this pronouncement did not have a material impact on our financial statements.

**Results of Operations*****Three Months Ended September 30, 2008 and 2007***

*Revenues from Infrastructure Solutions.* Revenues decreased by \$3.3 million, or 12.2%, to \$23.5 million for the three months ended September 30, 2008 compared to \$26.8 million for the three months ended September 30, 2007. The decrease in revenues from record highs in the year ended June 30, 2008 was primarily driven by a recent decline in bookings of contract orders due to the global economic slowdown resulting in government and commercial customers and prospects delaying projects. Due to the current global economic conditions it is currently difficult to assess whether or not future bookings will meet or exceed levels experienced in the fiscal year ended June 30, 2008.

*Revenues from Services.* Revenues increased by \$3.3 million, or 21.0%, to \$18.8 million for the three months ended September 30, 2008 compared to \$15.5 million for the three months ended September 30, 2007. The increase in revenue was primarily due to an increase in managed network services revenue within the content distribution services solution offering from a large one-time equipment sale and an increase in life cycle support services primarily due to a revenue milestone reached on a government program.

*Costs from Infrastructure Solutions.* Costs from infrastructure solutions decreased by \$0.9 million, or 4.2%, to \$20.3 million for the three months ended September 30, 2008 from \$21.2 million for the three months ended September 30, 2007. The decrease was attributable to a lower revenue base. The gross margin decreased to 13.8% for the three months ended September 30, 2008 from 20.9% for the three months ended September 30, 2007. This decrease in gross margin was mainly attributable to a decrease in sales in the pre-engineered systems product line in the government marketplace and two commercial customers with lower than normal margins.

*Costs from Services.* Costs from services increased by \$3.1 million, or 27.9%, to \$14.2 million for the three months ended September 30, 2008 from \$11.1 million for the three months ended September 30, 2007. Gross margin decreased to 24.5% for the three months ended September 30, 2008 compared to 28.6% for the three months ended September 30, 2007. The decrease in the margin was primarily driven by a large equipment shipment at a lower than normal margin in the three months ended September 30, 2008 along with a higher than normal margin on a program with a government agency in the three months ended September 30, 2007.

*Selling and Marketing.* Selling and marketing expenses increased by \$0.6 million, or 23.3%, to \$3.1 million for the three months ended September 30, 2008 from \$2.5 million for the three months ended September 30, 2007. The increase is a result of an increase in salary and salary related expenses for additional marketing personnel.

*Research and Development.* Research and development expenses decreased by \$0.2 million, or 37.4%, to \$0.3 million for the three months ended September 30, 2008 compared to \$0.5 million for the three months ended

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September 30, 2007. The decrease was principally due to costs incurred in the three months ended September 30, 2007 associated with expanding CDMA and GSM capabilities to enhance the cellular hosted switch offering.

*General and Administrative.* General and administrative expenses decreased by \$0.4 million, or 10.2%, to \$3.7 million for the three months ended September 30, 2008 from \$4.1 million for the three months ended September 30, 2007. The decrease in general and administrative expenses for the three months ended September 30, 2008 was due to a decrease in the Company's pay for performance plan and a decrease in amortization of intangibles partially offset by an increase in stock compensation expense primarily due to the accelerated vesting of the restricted stock of our former President, who passed away on July 20, 2008, partially offset by life insurance proceeds received by the Company.

*Interest Income.* Interest income decreased by \$0.3 million, or 49.2%, to \$0.3 million for the three months ended September 30, 2008 from \$0.5 million for the three months ended September 30, 2007, as a result of a decrease in interest rates.

*Interest Expense.* Interest expense of \$0.3 million for the three months ended September 30, 2007 was a result of the acquisition term loan used to partially fund the acquisition of the GSM business. On September 26, 2007, the Company repaid the principal balance of the acquisition term loan.

*Provision for income taxes.* Our effective income tax rate was 20% and 5% for the three months ended September 30, 2008 and 2007, respectively. The effective rate for the three months ended September 30, 2008 was lower than the projected rate of approximately 38% for fiscal 2009 due to the inclusion of a discrete tax benefit associated with not-taxable life insurance proceeds due to the passing of our former president. In the three months ended September 30, 2007, our effective rate of 5% consisted primarily U. S. federal alternative minimum taxes and state taxes due to the full valuation allowance on our deferred tax assets.

**Liquidity and Capital Resources**

At September 30, 2008, we had working capital of \$81.2 million, including cash and cash equivalents of \$56.6 million, net accounts receivable of \$34.6 million, inventories of \$16.9 million, prepaid expenses and other current assets of \$1.5 million, current deferred income taxes of \$0.8 million, offset by \$17.8 million in accounts payable, \$6.1 million in deferred revenues, \$3.5 million in accrued payroll and related fringe benefits, and \$1.8 million in accrued expenses and other current liabilities.

Net cash provided by operating activities during the three months ended September 30, 2008 was \$6.1 million, which primarily related to a decrease in accounts receivable of \$17.4 million due to the timing of billings and collections from customers and a reduction in revenue in the three months ended September 30, 2008 as compared to the three months ended June 30, 2008, a non-cash item representing depreciation and amortization expense of \$1.4 million primarily related depreciation expense related to the network operations center and satellite earth station equipment, non cash stock compensation expense of \$0.9 million and net income of \$0.8 million, offset by a decrease in accounts payable of \$7.8 million relating to the reduction in revenue in the three months ended September 30, 2008 as compared to the three months ended June 30, 2008 and the timing of vendor payments, a decrease in deferred revenue of \$3.9 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts, and a decrease in accrued payroll and related fringe benefits of \$2.3 million primarily due to the payment in the three months ended September 30, 2008 of awards under the pay for performance plan with respect to the Company's fiscal year ended June 30, 2008.

Net cash used in investing activities during the three months ended September 30, 2008 was \$1.0 million, which related to the purchase of network operations center and teleport assets.

Net cash provided by financing activities during the three months ended September 30, 2008 was \$0.1 million, which related to proceeds from the exercise of stock options.

On January 25, 2008, we entered into a secured credit facility with Citibank, N.A, which expires on December 31, 2008. The credit facility is comprised of a \$50 million borrowing base line of credit (the "Line") and a foreign exchange line in the amount of \$10 million. The Line includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$20 million available for commercial letters of credit; (c) \$25 million term line to be used for acquisitions; and (d) \$7.5 million available for direct borrowings. Advances under the Line bear interest at the prime rate or LIBOR plus 175 basis points, at our discretion, and are collateralized by a first priority security interest on all

of our assets. We are required to comply with various ongoing financial covenants, including

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with respect to the leverage ratio, liquidity ratio, minimum cash balance, debt service ratio and minimum capital base, with which we were in compliance at September 30, 2008. The credit facility is uncommitted and advances are subject to Citibank, N.A.'s approval. As of September 30, 2008, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately \$8.1 million, which were applied against and reduced the amounts available under the credit facility.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through the fiscal year ending June 30, 2015. Future minimum lease payments due on these leases through September 30, 2009 are approximately \$11.8 million.

At September 30, 2008, we had contractual obligations and other commercial commitments as follows (in thousands):

	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
<b>Contractual Obligations</b>					
Operating leases	\$ 16,779	\$ 11,814	\$ 3,590	\$ 1,147	\$ 228
Total contractual cash obligations	\$ 16,779	\$ 11,814	\$ 3,590	\$ 1,147	\$ 228

	<b>Total</b>	<b>Amount of Commitment Expiration Per Period</b>			
		<b>Less than 1 year</b>	<b>1-3 year</b>	<b>4-5 year</b>	<b>More Than 5 year</b>
<b>Other Commercial Commitments</b>					
Standby letters of credit	\$ 8,112	\$ 6,539	\$ 1,573	\$	\$
Total commercial commitments	\$ 8,112	\$ 6,539	\$ 1,573	\$	\$

We expect that our cash and working capital requirements for operating activities may increase as we continue to implement our business strategy. Management anticipates additional working capital requirements for work in progress for orders as obtained and that we may periodically experience negative cash flows due to variances in quarter to quarter operating performance and if cash is used to fund any future acquisitions of complementary businesses, technologies and intellectual property. We will use existing working capital and, if required, use our credit facility to meet these additional working capital requirements.

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the infrastructure solutions and services business, the nature and timing of customer orders and the level of capital requirements related to the expansion of our service offerings. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements at least through September 30, 2009. However, we cannot assure you that there will be no unforeseen events or circumstances that would consume available resources significantly before that time.

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, capital expenditures, research and development activities, the timing and extent of our marketing programs,



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and we may be required to reduce headcount. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

**Off-Balance Sheet Arrangements**

We have not entered into any off-balance sheet arrangements.

**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 in 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. Accordingly, we may utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. At September 30, 2008, we had no significant outstanding foreign exchange 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. Under our current positions, we do not use interest rate derivative instruments to manage exposure to interest rate changes.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our Chief Executive Officer and Chief Financial Officer have reviewed the effectiveness of our disclosure controls and procedures as of September 30, 2008 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

*Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**Part II Other Information**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

**Risks Related to Our Business**

*A limited number of customer contracts account for a significant portion of our revenues, and the inability to replace a key customer contract or the failure of the customer to implement its plans 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 revenue. Specifically, we have agreements with five customers to provide equipment and services, from which we expect to generate a significant portion of our revenues. In the three months ended September 30, 2008, we derived 23% and 12% of our revenues from a U.S. government agency and a provider of telecommunications services in Asia, respectively. If any key customer is unable to implement its business plan, the market for these customers' services declines, political or military conditions make performance impossible or if all or any of the major customers modifies or terminates its agreement with us, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

*We derive a substantial portion of our revenues from the government marketplace.*

We derive a substantial portion of our revenues from government marketplace. In the three months ended September 30, 2008, we derived 49% of our consolidated revenues from the government marketplace. This business tends to have higher gross margins than other markets of our business. A future reduction in the proportion of our business from government marketplace would negatively impact our results of operations.

There are a number of other risks associated with the government marketplace, which include, purchasing decisions of agencies are subject to political influence, contracts are subject to cancellation if government funding becomes unavailable, and unsuccessful bidders may challenge contracts we are awarded which can lead to increased costs, delays and possible loss of the contract. In particular, the current government involvement in supporting various financial institutions and the mounting government deficits will likely result in failures to fund various government programs. A withdrawal of military forces from Iraq or other areas of conflict following a change in Administration in the United States could result in curtailed spending in military programs in which we participate.

*Reductions in telecommunications equipment and systems spending may negatively affect our revenues, profitability and the recoverability of our assets.*

For the last several years, the U.S. and global economies have been growing and our revenues and profits have increased as our customers have increased their spending on telecommunications equipment and systems. However, recent adverse conditions in the U.S. consumer mortgage market have negatively impacted the global economy and nearly all businesses, including ours, are facing uncertain economic environments. Our business has been negatively affected in the past by uncertain economic environments both in the overall market, and more specifically in the telecommunications sector. As a result of the current global economic conditions, our customers may reduce their budgets for spending on telecommunications equipment and systems. As a consequence, our current customers and other prospective customers may postpone, reduce or even forego the purchase of our products, systems and services, which could adversely affect our revenues and profitability. It is currently difficult to assess whether or not future bookings will meet or exceed the levels experienced in the recent past.

*Risks associated with operating in international markets could restrict our ability to expand globally and harm our business and prospects.*

We market and sell a substantial portion of our products and services internationally. We anticipate that

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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, including countries in areas of conflict like Afghanistan. There are a number of risks inherent in conducting our business internationally, including:

general political and economic instability in international markets, including the hostilities in Iraq and Afghanistan, could impede our ability to deliver our products and services to customers and harm our results of operations;

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

changes in regulatory requirements could restrict our ability to deliver services to our international customers; including the addition of a country to the list of sanctioned countries under the International Emergency Economic Powers Act or similar legislation;

export restrictions, tariffs, licenses and other trade barriers could prevent us from shipping products outside the United States or 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 affect 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 affect our ability to compete;

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

potentially adverse taxes could 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.

***We derive a substantial portion of our revenues from fixed-price projects, under which we assume greater financial risk if we fail to accurately estimate the costs of the projects.***

We derive a substantial portion of our revenues from fixed-price projects. We assume greater financial risks on a fixed-price project than on a time-and-expense based project. If we miscalculate the resources or time we need for these fixed-price projects, the costs of completing these projects may exceed our original estimates, which would negatively impact our financial condition and results of operations.

***Our service revenue has increased as a percentage of total revenue and if our service revenue decreases or margins decrease, our results of operations will be harmed.***

GNSC, GSM and Cachendo's future revenues and results of operations are dependent on the development of the market for its current and future services. The service business tends to have higher gross margins than our infrastructure solutions business. A future reduction in the proportion of our services business would disproportionately impact our results of operations.



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***In the event of a catastrophic loss affecting our operations in Hauppauge, New York or Laurel, Maryland, our results of operations would be harmed.***

GNSC's revenues and results of operations are dependant on the infrastructure of the network operations center and the Kenneth A. Miller International Teleport at our headquarters in Hauppauge, New York. Similarly, GSM's revenues and results of operations are dependant on the infrastructure of the network operations center and teleport at our Laurel, Maryland facility. A catastrophic event to either of these facilities or to the infrastructure of the surrounding areas would result in significant delays in restoring a majority of the services capabilities. These capabilities permit us to offer an integrated suite of products and services and the incapacity of our communications infrastructure would negatively impact our ability to sell our infrastructure solutions. This would result in the loss of revenues and adversely affect our business, results of operations and financial condition.

***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 infrastructure solutions market generally fall into two groups: (1) system integrators, such as Thales, Data Path, and SED Systems, and (2) equipment manufacturers who also provide integrated systems, such as General Dynamics SATCOM Technologies, Viasat, Alcatel and ND Satcom AG.

In the end-to-end satellite-based enterprise solutions and broadcast services markets, we compete with other satellite communication companies who provide similar services, such as Ascent Media, Globecast, and Convergent Media Systems. In addition, in managed network services we may compete with other communications service providers such as Segovia and Verizon and satellite owners like SES Americom 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, 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. The potential strategic relationships of existing and new competitors may rapidly acquire significant market share, which would harm our business and financial condition. Further, increased competition among satellite ground segment systems and network manufacturers has increased pricing pressures.

We derive a substantial portion of our revenues from fixed-price projects. We assume greater financial risks on a fixed-price project than on a time-and-expense based project. If we miscalculate the resources or time we need for these fixed-price projects, the costs of completing these projects may exceed our original estimates, which would negatively impact our financial condition and results of operations.

***We may not realize all of the anticipated benefits of our acquisition of the GlobalSat business.***

The success of our acquisition of the GlobalSat business, which is operated by GSM, is generally dependent upon agreements with three customers to provide equipment and services, from which we expect to generate a significant portion of revenues relating to the GlobalSat business. If any of these three customers modifies or terminates its agreement with GSM, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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***Future acquisitions and strategic investments may divert our resources and management's attention, results may fall short of expectations and, as a result, our operating results may be difficult to forecast and may be volatile.***

We intend to continue pursuing acquisitions of investments in complementary businesses, technologies and product lines as a key component of our growth strategy. Any future acquisitions or investments may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt and amortization expenses or in-process research and development charges related to intangibles assets. Acquisitions involve numerous risks, including:

difficulties in the integration of the operations, technologies, products and personnel of an acquired business;

diversion of management's attention from other business concerns;

increased expenses associated with the acquisition; and

loss of key employees or customers of any acquired business.

We cannot assure you that any future acquisitions will be successful and will not adversely affect our business, results of operations or financial condition.

***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.

***Since sales of satellite communications equipment are dependent on the growth of communications networks, if 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 revenues from the sale of satellite infrastructure solutions. If the long-term growth in demand for communications networks declines, the demand for our infrastructure solutions may decline or grow more slowly than we expect. As a result, we may not be able to grow our business, our revenues 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, the uncertain general economic conditions, such as those which exist at the current time, have affected the overall rate of capital spending by many of our customers. Also, many companies have found it difficult to raise capital to finish building their communications networks and, therefore, have placed fewer orders. Past economic slowdowns resulted in a softening of demand from our customers, and we expect that the ongoing financial downturn will result in a similar reduction in demand. We cannot predict the extent

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to which demand will increase. Further, increased competition among satellite ground segment systems and network manufacturers has increased pricing pressures.

***We depend upon certain key personnel and may not be able to retain these employees. If we lose the services of these individuals or cannot hire additional qualified personnel, our business will be harmed.***

Our success also depends to a substantial degree on our ability to attract, motivate and retain highly-qualified personnel. There is considerable competition for the services of highly-qualified technical and engineering personnel. We may not be able either to retain our current personnel or hire additional qualified personnel if and when needed.

Our future performance depends on the continued service of our key technical, managerial and marketing personnel; in particular, David Hershberg, our Chairman, Chief Executive Officer and President, is key to our success based upon his individual knowledge of the markets in which we operate. The employment of any of our key personnel could cease at any time.

***Satellites upon which we rely may malfunction or be damaged or lost.***

In the delivery of our services, we lease space segment from various satellite transponder vendors. The damage or loss of any of the satellites used by us, or the 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 could have a material adverse effect on 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 could materially adversely affect our business, results of operations and financial condition.***

We currently obtain most of our critical components and services from limited sources and generally do not maintain significant inventories or have long-term or exclusive supply contracts with our 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 receive 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.

***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. We may face liability to customers for such security breaches. Furthermore, these incidents could deter potential customers and adversely affect existing customer relationships.

***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 if 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.

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***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.

***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 six patents and have one patent and one provisional patent application pending in the United States. We currently have one Patent Cooperation Treaty patent application pending. 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 patent applications 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 Globecom Systems Inc., Globecom and GSI in the United States and various other countries, and have been granted registrations for some of these terms in the United States, Europe and Russia. We have various other trademarks and service marks 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 the 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, segments of our business.

**Risks Related to the Securities Markets and Ownership of Our Common Stock**

***Our stock price is volatile.***

From October 1, 2007 through September 30, 2008, our stock price ranged from a low of \$7.45 per share to a high of \$16.49 per share. The market price of our common stock, like that of the securities of many

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telecommunications and high technology industry companies, could be subject to significant fluctuations and 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;

changes in financial estimates or recommendations by securities analysts;

general market conditions, including the current trend of unprecedented volatility; or

domestic and international economic factors unrelated to our performance.

Additionally, numerous factors relating to our business may cause fluctuations or declines in our stock price.

The stock markets in general and the markets for telecommunications stocks in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

***Because our common stock is thinly traded, it may be difficult to sell shares of our common stock into the markets without experiencing significant price volatility.***

Our common stock is currently traded on the Nasdaq Global Market. Because of the relatively small number of shares that are traded, it may be difficult for an investor to find a purchaser for shares of our common stock without experiencing significant price volatility. We cannot guarantee that an active trading market will develop, that our common stock will have a higher trading volume than it has historically had or that it will maintain its current market price. This illiquidity could have a material adverse effect on the market price of our stock.

***A third party could be prevented from acquiring shares of our 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, by-laws and Section 203 of the General Corporation Law 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 our stockholders. In addition, we have a poison pill in place and employment provisions with our senior executives that have change of control provisions that could make an acquisition of us by a third party more difficult.

***We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.***

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our future earnings, capital requirements, financial condition, future prospects and other factors as the board of directors might deem relevant. If we do not pay dividends our stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

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**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 FCC licensed teleports in Hauppauge, New York, and Laurel, Maryland subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of FCC. We cannot guarantee that the FCC will grant renewals 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 teleports. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our teleports. In addition, prior to a third party acquisition of us, we would need to seek approval from the FCC to transfer the radio transmission licenses we have obtained to the third party upon the consummation of the acquisition. However, we cannot assure you that the FCC will permit the transfer of these licenses. These approvals may make it more difficult for a third party to acquire us.

***Foreign Regulations***

Regulatory schemes in countries in which we may seek to provide our satellite-delivered 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 that may have a material adverse impact on our business. Either we or our local partners typically must obtain authorization from each country in which we provide our satellite-delivered 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, including but not limited to privacy regulations in numerous European countries and content restrictions in countries such as the People's 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, the laws 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.

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***Telecommunications Taxation, Support Requirements, and Access Charges***

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, telecommunications relay services for the deaf, and/or other regulatory fees. We are subject to some of these fees, and we may be subject to other fees or 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.

Broadband Internet access services provided by telephone companies are currently classified as Information Services under the Communications Act and therefore not considered a telecommunications service subject to payment of access charges to local telephone companies in the United States. Should this situation change or other charges be imposed, the increased cost to our customers who use telephone-company provided facilities to connect with our satellite facilities could discourage the demand for our services. Likewise, the demand for our services in other countries could be affected by the availability and cost of local telephone or other telecommunications services required to connect with our facilities in those countries.

***Export of Telecommunications Equipment***

The sale of our infrastructure solutions outside the United States is subject to compliance with the regulations of the United States Export Administration and, in certain circumstances, with International Traffic in Arms 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 and implement our services in some 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.

***Foreign Ownership***

We may, in the future, be required to seek FCC or other government approval if foreign ownership of our stock exceeds certain specified criteria. Failure to comply with these policies could 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, or denial of certain contracts from other United States Government Agencies.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

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

None

**Item 5. Other Information**

None

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**Item 6. Exhibits**  
**Exhibit No.**

- 31.1 Chief Executive Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.2 Chief Financial Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (filed herewith).
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).



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**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: November 10, 2008

/s/ DAVID E. HERSHBERG  
David E. Hershberg  
Chairman of the Board,  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: November 10, 2008

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

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