GLOBECOMM SYSTEMS INC
Form 10-Q
February 11, 2008

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 December 31, 2007

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 11-3225567 (State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.) 45 Oser Avenue,
Hauppauge, NY 11788 (Address of principal executive offices) (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, or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 February 7, 2008, there were 20,140,975 shares of the registrant's Common Stock outstanding.

GLOBECOMM SYSTEMS INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2007 (Unaudited)	June 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 48,618	$ 25,558
Accounts receivable, net	39,593	38,378
Inventories	19,158	16,294
Prepaid expenses and other current assets	1,914	2,823
Total current assets	109,283	83,053
Fixed assets, net	33,084	33,238
Goodwill	22,197	22,197
Intangibles, net	2,797	3,474
Other assets	953	921
Total assets	$ 168,314	$ 142,883
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 24,294	$ 24,170
Deferred revenues	7,022	9,792
Accrued payroll and related fringe benefits	5,802	6,037
Other accrued expenses	1,902	2,235
Deferred liabilities	195	256
Long term debt – current	—	3,312
Total current liabilities	39,215	45,802
Other liabilities	996	1,035
Long term debt	—	12,533
Deferred income taxes	196	—
Commitments and contingencies		
Stockholders' equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at December 31, 2007 and June 30, 2007	—	—
Common stock, $.001 par value, 50,000,000 shares authorized, shares issued: 20,602,226 at December 31, 2007 and 16,942,449 at June 30, 2007	20	17
Additional paid-in capital	181,491	143,843
Accumulated deficit	(50,823)	(57,566)
Treasury stock, at cost, 465,351 shares at December 31, 2007 and June 30, 2007	(2,781)	(2,781)
Total stockholders' equity	127,907	83,513
Total liabilities and stockholders' equity	$ 168,314	$ 142,883

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Revenues from infrastructure solutions	$ 38,925	$ 28,351	$ 65,723	$ 45,812
Revenues from services	15,522	8,370	31,066	16,628
Total revenues	54,447	36,721	96,789	62,440
Costs and operating expenses:				
Costs from infrastructure solutions	31,435	23,202	52,619	37,277
Costs from services	12,027	6,976	23,133	13,563
Selling and marketing	2,728	1,766	5,253	3,541
Research and development	656	323	1,153	523
General and administrative	4,229	2,951	8,304	5,365
Total costs and operating expenses	51,075	35,218	90,462	60,269
Income from operations	3,372	1,503	6,327	2,171
Interest income	556	348	1,076	616
Interest (expense)	—	—	(285)	—
Income before income taxes	3,928	1,851	7,118	2,787
Provision for income taxes	208	45	375	65
Net income	$ 3,720	$ 1,806	$ 6,743	$ 2,722
Basic net income per common share	$ 0.19	$ 0.12	$ 0.36	$ 0.18
Diluted net income per common share	$ 0.18	$ 0.11	$ 0.34	$ 0.17
Weighted-average shares used in the calculation of basic net income per common share	19,992	15,601	18,892	15,409
Weighted-average shares used in the calculation of diluted net income per common share	20,868	16,489	19,796	16,181

See accompanying notes.

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GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the six months ended DECEMBER 31, 2007
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balance at June 30, 2007	16,942	$ 17	$ 143,843	$ (57,566)	465	$ (2,781)	$ 83,513
Proceeds from exercise of stock options	115		715				715
Proceeds from exercise of stock warrants	20		110				110
Stock compensation expense			407				407
Grant of restricted shares	75						
Proceeds from offering, net of issuance costs of $2,412	3,450	3	36,397				36,400
Tax benefit from stock compensation plan			19				19
Net income				6,743			6,743
Balance at December 31, 2007	20,602	$ 20	$ 181,491	$ (50,823)	465	$ (2,781)	$ 127,907

See accompanying notes.

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

	Six Months Ended December 31, 2007	December 31, 2006
Operating Activities:		
Net income	$ 6,743	$ 2,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,093	1,487
Provision for doubtful accounts	130	220
Deferred income taxes	196	—
Stock compensation expense	407	159
Tax benefit from stock compensation plan	19	22
Changes in operating assets and liabilities:		
Accounts receivable	(1,345)	(7,360)
Inventories	(2,864)	(1,867)
Prepaid expenses and other current assets	909	(318)
Other assets	(32)	(7)
Accounts payable	124	3,432
Deferred revenue	(2,770)	3,820
Accrued payroll and related fringe benefits	(235)	910
Other accrued expenses	(333)	(410)
Other liabilities	(100)	607
Net cash provided by operating activities	3,942	3,417
Investing Activities:		
Purchases of fixed assets	(2,262)	(5,617)
Net cash used in investing activities	(2,262)	(5,617)
Financing Activities:		
Proceeds from exercise of stock options	715	3,353
Proceeds from exercise of warrants	110	344
Proceeds from offering, net	36,400	—
Repayments of debt	(15,845)	—
Net cash provided by financing activities	21,380	3,697
Net increase in cash and cash equivalents	23,060	1,497
Cash and cash equivalents at beginning of period	25,558	24,512
Cash and cash equivalents at end of period	$ 48,618	$ 26,009
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 385	$ —
Cash paid for income taxes	116	76

See accompanying notes.

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GLOBECOMM SYSTEMS INC.
Notes to Consolidated Financial Statements
DECember 31, 2007
(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, 2007 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 six months ended December 31, 2007, are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2008, 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, 2007 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 13, 2007.

Principles of Consolidation

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

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

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require complex software integration and interfacing and the Company has not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the system. The estimated relative fair value of the installation services is determined by management, which is typically less than the customer’s contractual holdback percentage. If the holdback is less than the fair value of installation, the Company will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues in the accompanying consolidated balance sheets.

The Company recognizes revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for its non-standard, complex production-type contracts for the production of satellite ground segment systems and equipment that are generally integrated into the 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. 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 $322,000 and $407,000 for the three and six months ended December 31,

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2007, respectively. Stock compensation expense was approximately $147,000 and $159,000 for the three and six months ended December 31, 2006, respectively. As of December 31, 2007, there was approximately $440,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 3.2 years. As of December 31, 2007, there was approximately $1,361,000 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.

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 is approximately $22,197,000 at December 31, 2007, which relates 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 December 31, 2007 that would indicate that goodwill is impaired.

Intangibles subject to amortization consist of the following:

	December 31, 2007
(in thousands)	
Customer relationships	$ 3,000
Contracts backlog	640
Covenant not to compete	60
	3,700
Less accumulated amortization	903
Intangibles, net	2,797

Amortization is calculated using the straight-line method over the estimated useful lives of the assets. The useful lives were estimated as 8 years, 8 months and 3 years for customer relationships, contract backlog and covenants not to compete, respectively. Amortization expense of $338,000 and $677,000 was included in general and administrative expenses in the three and six months ended December 31, 2007.

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

2008	$ 198
2009	395
2010	392
2011	375
2012	375

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Income Taxes

Deferred Tax Assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Significant judgment is required in making this assessment. The ultimate realization of the net deferred tax assets, consisting of net operating losses and temporary differences, is dependent upon the generation of future taxable income prior to the expiration of any net operating loss carryforwards.

The Company evaluates the need for a valuation allowance against its deferred tax assets each quarter. During the three months ended September 30, 2007, the Company determined that a portion of its deferred tax assets are recoverable based on the forecasted results of operations for the remainder of the fiscal year ending June 30, 2008. This tax benefit of approximately $5.5 million has been included in calculating the estimated effective tax rate for the year ending June 30, 2008. Due to the continued uncertainties in the markets the Company serves and regarding its ability to utilize the net operating losses in the future, the Company continues to provide a valuation allowance, totaling approximately $24.2 million, against the balance of the its net deferred tax assets December 31, 2007.

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 provisions of FIN 48 were effective as of July 1, 2007. 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 July 1, 2007 and December 31, 2007 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 July 1, 2007 and December 31, 2007, the Company had not accrued any amounts for the potential payment of penalties and interest.

The Company is subject to taxation in the U.S. and various state taxing jurisdictions. The Company’s federal tax returns for the 2003 through 2006 tax years remain subject to examination. The Company files in numerous state jurisdictions with varying statutes of limitation.

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 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its financial statements.

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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 non-vested restricted shares (using the treasury stock method). The incremental common shares for stock options and warrants 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 and six months ended December 31, 2007 excludes the effect of approximately 291,000 and 290,000 stock options and restricted shares in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive. Diluted net income per share for the three and six months ended December 31, 2006 excludes the effect of approximately 603,000 and 646,000 stock options in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive.

3. Inventories

Inventories consist of the following:

	December 31, 2007 (Unaudited)	June 30, 2007
	(In thousands)	
Raw materials and component parts	$ 245	$ 230
Work-in-progress	21,312	17,507
	21,557	17,737
Less progress payments	2,399	1,443
	$ 19,158	$ 16,294

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 GNSC and GSM, 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 and six months ended December 31, 2007 and 2006 and as of December 31, 2007 and June 30, 2007:

	Three Months Ended		Six Months Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	(Unaudited)			
	(In thousands)			
Revenues:				
Infrastructure solutions	$ 38,985	$ 28,351	$ 65,783	$ 45,842
Services	15,717	8,525	31,381	16,993
Intercompany eliminations	(255)	(155)	(375)	(395)
Total revenues	$ 54,447	$ 36,721	$ 96,789	$ 62,440
Income from operations:				
Infrastructure solutions	$ 2,135	$ 1,013	$ 2,888	$ 810
Services	1,228	481	3,425	1,349
Interest income	556	348	1,076	616
Interest expense	—	—	(285)	—
Intercompany eliminations	9	9	14	12
Income before income taxes	$ 3,928	$ 1,851	$ 7,118	$ 2,787
Depreciation and amortization:				
Infrastructure solutions	$ 489	$ 310	$ 979	$ 635
Services	1,057	434	2,137	888
Intercompany eliminations	(12)	(18)	(23)	(36)
Total depreciation and amortization	$ 1,534	$ 726	$ 3,093	$ 1,487
Expenditures for long-lived assets:				
Infrastructure solutions	$ 540	$ 1,197	$ 1,027	$ 1,297
Services	914	2,759	1,235	4,320
Total expenditures for long-lived assets	$ 1,454	$ 3,956	$ 2,262	$ 5,617

	December 31, 2007 (Unaudited)	June 30, 2007
	(In thousands)	
Assets:		
Infrastructure solutions	$ 212,283	$ 183,988
Services	27,351	29,735
Intercompany eliminations	(71,320)	(70,840)
Total assets	$ 168,314	$ 142,883

5. Debt

The purchase of GSM’s business was funded, in part, through a five-year $16.0 million acquisition term loan (‘‘Acquisition Loan’’) provided by Citibank, N.A on May 2, 2007. The Acquisition Loan bore interest at the prime rate or LIBOR plus 225 basis points, at the Company’s discretion, and was collateralized by a first priority security interest on all of the Company’s assets, including the GSM assets. On September 26, 2007, the Company repaid the balance of $14.9 million.

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’’) and a foreign exchange line in the amount of $10 million. The Line includes the following sublimits: (1) $30 million available for standby letters of credit; (2) $20 million available for commercial letters of credit; (3) $25 million term line to be used for acquisitions; and (4) $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 December 31, 2007. The credit facility is uncommitted and advances are subject to Citibank, N.A.'s approval. As of December 31, 2007, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately $9.3 million, which were applied against and reduced the amounts available under the credit facility.

6. Offering of Equity Securities

During the three months ended September 30, 2007, the Company completed an offering of equity securities totaling $38,812,500 in gross proceeds. The Company sold 3,450,000 shares of common stock at a price of $11.25 per share. Expenses incurred totaled approximately $2,412,000, of which approximately $2,135,000 represented underwriting discounts and commissions and approximately $277,000 represented other expenses which resulted in net proceeds of approximately $36,400,000.

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 are derived from, and are 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.

In the three months ended December 31, 2007, 22% and 14% 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,

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which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the features or capabilities of the equipment, does not require complex software integration and interfacing and we have not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the equipment. The estimated relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, we will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues.

We recognize revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for our non-standard, complex production-type contracts for the production of satellite ground segment systems and equipment that are generally integrated into the 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 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 six months ended December 31, 2007 that would indicate that goodwill is impaired.

Deferred tax assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Significant judgment is required in making this assessment. The ultimate realization of the net deferred tax assets, consisting of net operating losses and temporary differences, is dependent upon the generation of future taxable income prior to the expiration of any net operating loss carryforwards.

We evaluate the need for a valuation allowance against our deferred tax assets each quarter. During the three months ended September 30, 2007, we determined that a portion of our deferred tax assets is recoverable based on the forecasted results of operations for the remainder of the fiscal year ending June 30, 2008. This tax benefit of approximately $5.5 million has been included in calculating the estimated effective tax rate for the year ending June 30, 2008. Due to the continued uncertainties in the markets we serve and regarding our ability to utilize the net operating losses in the future, we continue to provide a valuation allowance, totaling approximately $24.2 million, against the balance of our net deferred tax assets at December 31, 2007.

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.

Results of Operations

Three and Six Months Ended December 31, 2007 and 2006

Our consolidated results of operations for the three and six months ended December 31, 2007 include results related to the acquisition of the business of GSM which are included in the services segment since the acquisition in May 2007.

Revenues from Infrastructure Solutions. Revenues increased by $10.6 million, or 37.3%, to $38.9 million for the three months ended December 31, 2007 and increased by $19.9 million, or 43.5%, to $65.7 million for the six months ended December 31, 2007 compared to $28.4 million and $45.8 million for the three and six months ended December 31, 2006, respectively. The increase in revenues was primarily driven by the increase in the pre-engineered systems product line revenue in the government marketplace.

Revenues from Services. Revenues increased by $7.2 million, or 85.4%, to $15.5 million for the three months ended December 31, 2007 and increased by $14.4 million, or 86.8%, to $31.1 million for

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the six months ended December 31, 2007 compared to $8.4 million and $16.6 million for the three and six months ended December 31, 2006, respectively. For the three months ended December 31, 2007 the increase in revenues was primarily due to the addition of $7.6 million of GSM revenue along with an increase within the content distribution services solution offering from a large program with Showtime Networks Inc. which service began in July 2007, partially offset by a decrease in life cycle support services in the government marketplace and a decrease in telephony services. For the six months ended December 31, 2007 the increase in revenue was primarily due to the addition of $14.0 million of GSM revenue along with an increase within the content distribution services solution offering from a large program with Showtime Networks Inc. which service began in July 2007, partially offset by a decrease in life cycle support services in the government marketplace.

Costs from Infrastructure Solutions. Costs from infrastructure solutions increased by $8.2 million, or 35.5%, to $31.4 million for the three months ended December 31, 2007 and increased by $15.3 million, or 41.2%, to $52.6 million for the six months ended December 31, 2007 compared to $23.2 million and $37.3 million for the three and six months ended December 31, 2006, respectively. The increase was attributable to a higher revenue base. The gross margin increased to 19.2% and 19.9% of revenues for the three and six months ended December 31, 2007 compared to 18.2% and 18.6% for the three and six months ended December 31, 2006. This increase in gross margin was mainly attributable to the increased revenue in the pre-engineered systems product line in the government marketplace.

Costs from Services. Costs from services increased by $5.1 million, or 72.4%, to $12.0 million for the three months ended December 31, 2007 and increased by $9.6 million, or 70.6%, to $23.1 million for the six months ended December 31, 2007 compared to $7.0 million and $13.6 million for the three and six months ended December 31, 2006, respectively. Gross margin increased to 22.5% and 25.5% of revenues for the three and six months ended December 31, 2007 compared to 16.7% and 18.4% for the three and six months ended December 31, 2006. The increase in the margin was primarily driven by GSM sales along with an increase in revenue within the content distribution services solution offering from a large program with Showtime Networks Inc., which has higher margin than the other service offerings. The increase in gross margin in the services segment has been a key driver in the increase in our consolidated income from operations. The future relationship between the revenue and margin growth of our operating segments will depend on a variety of factors, including the timing of major contracts, which are difficult to predict.

Selling and Marketing. Selling and marketing expenses increased by $1.0 million, or 54.5%, to $2.7 million for the three months ended December 31, 2007 and increased by $1.7 million, or 48.3%, to $5.3 million for the six months ended December 31, 2007 compared to $1.8 million and $3.5 million for the three and six months ended December 31, 2006, respectively. The increase was due to selling and marketing expenses incurred at GSM, an increase in salary and salary related expenses for additional marketing personnel pursuing business in the government marketplace and travel and living expenses related to marketing efforts exploring new markets.

Research and Development. Research and development expenses increased by $0.3 million, or 103.1%, to $0.7 million for the three months ended December 31, 2007 and increased by $0.6 million, or 120.5%, to $1.2 million for the six months ended December 31, 2007 compared to $0.3 million and $0.5 million for the three and six months ended December 31, 2006, respectively. The increase was principally due to costs associated with expanding CDMA and GSM capabilities to enhance the cellular hosted switch offering.

General and Administrative. General and administrative expenses increased by $1.3 million, or 43.3%, to $4.2 million for the three months ended December 31, 2007 and increased by $2.9 million, or 54.8%, to $8.3 million for the six months ended December 31, 2007 compared to $3.0 million and $5.4 million for the three and six months ended December 31, 2006, respectively. The increase in general and administrative expenses was due to GSM expenses of $1.1 million and $2.3 million for the three and six months ended December 31, 2007, respectively, along with increase in stock compensation expense and salary due to an increase in headcount.

Interest Income. Interest income increased by $0.2 million, or 59.8%, to $0.6 million for the three months ended December 31, 2007 and increased by $0.5 million, or 74.7%, to $1.1 million for the six months ended December 31, 2007 compared to $0.3 million and $0.6 million for the three and six months ended December 31, 2006, respectively, as a result of the increase in cash due to receipts of the proceeds of the Company's follow-on equity offering in August and September 2007 and increased interest rates.

Interest Expense. Interest expense of $0.3 million for the six months ended December 31, 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. Provision for income taxes increased to $0.2 million for the three months ended December 31, 2007 and to $0.4 million for the six months ended December 31, 2007 due to the increase in net income and an increase in the effective tax rate due to additional state income taxes due to GSM operations in the three and six months ended December 31, 2007. Additionally, the annual effective tax rate includes the recovery of $5.5 million of the deferred tax assets based on the forecasted results of operations for the fiscal year ending June 30, 2008. Due to the continued uncertainties in the markets we serve and regarding our ability to utilize the net operating losses in the future, we continue to provide a valuation allowance, totaling approximately $24.2 million, against the balance of our net deferred tax assets at December 31, 2007.

Liquidity and Capital Resources

At December 31, 2007, we had working capital of $70.1 million, including cash and cash equivalents of $48.6 million, net accounts receivable of $39.6 million, inventories of $19.2 million, prepaid expenses and other current assets of $1.9 million, offset by $24.3 million in accounts payable, $7.0 million in deferred revenues, $5.8 million in accrued payroll and related fringe benefits and $2.1 million in accrued expenses and other current liabilities.

Net cash provided by operating activities during the six months ended December 31, 2007 was $3.9 million, which primarily related to net income of $6.7 million, a non-cash item representing depreciation and amortization expense of $3.1 million (primarily related to amortization of intangibles related to the acquisition of GSM's business) and depreciation expense primarily related to the network operations center and satellite earth station equipment, partially offset by an increase in inventory of $2.9 million due to the timing of shipments of certain jobs, a decrease in deferred revenue of $2.8 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts, and an increase in accounts receivable of $1.3 million due to the timing of billings and collections from customers.

Net cash used in investing activities during the six months ended December 31, 2007 was $2.3 million, which related to the purchase of network operations center and teleport assets and the completion of the upgrade of our Hauppauge facility to meet the requirements of the increased business levels.

Net cash provided by financing activities during the six months ended December 31, 2007 was $21.4 million, which related primarily to proceeds from the offering of $36.4 million and $0.8 million of proceeds from the exercise of stock options and warrants, partially offset by the repayment of the acquisition term loan of $15.8 million.

In August and September 2007, we completed an offering of equity securities totaling $38,812,500 in gross proceeds. We sold 3,450,000 shares of common stock at a price of $11.25 per share. We incurred total expenses of approximately $2,412,000, of which approximately $2,135,000 represented underwriting discounts and commissions and approximately $277,000 represented other expenses which resulted in net proceeds of approximately $36,400,000.

On May 2, 2007, we acquired the GlobalSat business for a purchase price of $18.5 million in cash. The purchase price was funded, in part, through a five-year $16.0 million acquisition term loan provided by Citibank, N.A. The Acquisition Loan bore interest at the prime rate or LIBOR plus

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225 basis points, at our discretion, and was collateralized by a first priority security interest on all of our assets, including the GSM assets. On September 26, 2007 the Company repaid the acquisition loan balance of $14.9 million.

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: (1) $30 million available for standby letters of credit; (2) $20 million available for commercial letters of credit; (3) $25 million term line to be used for acquisitions; and (4) $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 is collateralized by a first priority security interest on all of our assets. We are required to comply with various ongoing financial covenants, including 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 December 31, 2007. The credit facility is uncommitted and advances are subject to Citibank, N.A.’s approval. As of December 31, 2007, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately $9.3 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 fiscal 2013. Future minimum lease payments due on these leases through December 31, 2008 are approximately $14.9 million.

At December 31, 2007, we had contractual obligations and other commercial commitments as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating leases	$ 21,278	$ 14,923	$ 4,899	$ 1,061	$ 395
Total contractual cash obligations	$ 21,278	$ 14,923	$ 4,899	$ 1,061	$ 395

	Amount of Commitment Expiration Per Period				
Other Commercial Commitments	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	More Than 5 years
Standby letters of credit	$ 9,335	$ 9,121	$ 214	$ —	$ —
Total commercial commitments	$ 9,335	$ 9,121	$ 214	$ —	$ —

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. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements at least through December 31, 2008.

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, 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.

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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 December 31, 2007, we had no 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

Quarterly Evaluation of the Company’s Disclosure Controls and Internal Controls.

(a) As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of 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’’)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) There have been no changes in the Company’s internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f)) or in other factors during the fiscal quarter ended December 31, 2007 that materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

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Part II — Other Information

Item 1. Legal Proceedings

None

Item 1A. Risk Related to our Business

Risk Factors

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. 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 the government marketplace. In the three months ended December 31, 2007, we derived 63% 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 the government marketplace would negatively impact our results of operations.

There are a number of other risks associated with the government marketplace 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.

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

The success of our recent 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 GlobalSat, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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 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;

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- 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 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 and GSM’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 negatively impact our results of operations.

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 dependent on the infrastructure of the network operations center and the International Teleport at our headquarters in Hauppauge, New York. Similarly, GSM’s revenues and results of operations are dependent on the infrastructure of the network operations center and teleport at our Laurel, Maryland facility. A catastrophic event at 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

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in the infrastructure solutions market generally fall into two groups: (1) system integrators, like Thales, Data Path, and SED Systems, and (2) equipment manufacturers who also provide integrated systems, like General Dynamics SATCOM Technologies, Andrew Corporation, 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, like Ascent Media, Globecast, and Convergent Media Systems. In addition, in managed network services we may compete with other communications service providers like Segovia and satellite owners like SES Americom, Intelsat and Verizon. 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.

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 does not continue to return from recent depressed levels, 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 have affected the overall rate of capital spending by many of our customers. Also, many

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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. We cannot predict the extent 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 and Kenneth Miller are key to our success based upon their 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

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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.

We may not be able to keep pace with technological changes, which would make our products and services become non-competitive and obsolete.

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

We may be unable to raise additional funds to meet our capital requirements in the future.

We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through at least December 31, 2008. We may need to raise additional funds for future acquisitions of assets or a business. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

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 in the United States, one for remote access to the Internet using satellites, one for satellite communication with automatic frequency control, one for a monitor and control system for satellite communications networks and the like, one for implementing facsimile and data communications using Internet protocols and two for a dish antenna kit, including alignment tool. We have one other patent pending in the United States for a distributed satellite-based cellular network. We currently have one Patent Cooperation Treaty patent application pending for implementing facsimile and data communications using Internet protocols. We also intend to seek further patents on our technology, if appropriate. We cannot assure you that patents will be issued for any of our pending or future 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 Globecomm Systems Inc., Globecomm and GSI in the United States and various other countries, and have been granted registrations for some of these terms in 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

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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 January 1, 2007 through December 31, 2007, our stock price ranged from a low of $8.85 per share to a high of $16.49 per share. The market price of our common stock, like that of the securities of many 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; 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

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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.

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 earth stations in Hauppauge, New York, and Laurel, Maryland, subject to the Communications Act of 1934, as amended (the ‘‘FCC Act’’), and the rules and regulations of FCC. Pursuant to the FCC Act and rules, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. We have also obtained and maintain authorization issued under Section 214 of the FCC Act to act as a telecommunications carrier, which authorization also extends to GNSC. These licenses should be renewed by the FCC in the normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that the FCC will grant additional licenses when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our earth stations. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our earth stations. 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.

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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.

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.

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

Export of Telecommunications Equipment

The sale of our infrastructure solutions outside the United States is subject to compliance with the United States Export Administration Regulations and, in certain circumstances, with the 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

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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

Matters voted upon at the Annual Meeting of stockholders held on November 15, 2007 and the results of the voting were as follows:

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

Board Member	For	Withheld
Richard E. Caruso	17,801,068	678,818
David E. Hershberg	17,750,887	728,999
Harry L. Hutcherson, Jr.	17,826,379	653,507
Brian T. Maloney	16,748,609	1,731,277
Kenneth A. Miller	17,752,287	727,599
Jack A. Shaw	17,801,568	678,318
A. Robert Towbin	16,697,363	1,782,523
C.J. Waylan	17,802,068	677,818

(ii) To ratify the appointment of Ernst & Young LLP as independent registered public accounting firm of the Company for the fiscal year ending June 30, 2008 was voted upon as follows: 18,349,840 shares for; 115,133 shares against; and 14,913 shares abstaining.

Item 5. Other Information

None

Item 6. Exhibits

Index to 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: February 11, 2008 /s/ DAVID E. HERSHBERG David E. Hershberg Chairman of the Board and Chief Executive Officer (Principal Executive Officer) Date: February 11, 2008 /s/ ANDREW C. MELFI Andrew C. Melfi Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
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