GLOBECOMM SYSTEMS INC
Form 10-Q
May 15, 2003

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number: 000-22839

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

GLOBECOMM SYSTEMS INC.

Index to the March 31, 2003 Form 10-Q

Part I -- Financial Information

PART I -- FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	MARCH 31, 2003 (UNAU
ASSETS	
Current assets:	
Cash and cash equivalents	$23,902
Restricted cash	588
Accounts receivable, net	10,562
Inventories	11,658
Prepaid expenses and other current assets	848
Deferred income taxes	138
Total current assets	47,696
Fixed assets, net	17,227
Goodwill	7,204
Other assets	1,446
Total assets	$73,573
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$9,630
Deferred revenues	5,862
Accrued payroll and related fringe benefits	1,296
Other accrued expenses	1,935
Deferred liabilities	636
Capital lease obligation	--
Total current liabilities	19,359
Deferred liabilities, less current portion	1,383
Capital lease obligation, less current portion	--
Commitments and contingencies	
Stockholders' equity:	
Series A Junior Participating, shares authorized, issued and outstanding: none at March 31, 2003 and June 30, 2002	--
Common stock, $.001 par value, 22,000,000 shares authorized, shares issued: 12,958,302 at March 31, 2003 and 12,933,062 at June 30, 2002	13
Additional paid-in capital	123,679
Accumulated deficit	(68,338)
Accumulated other comprehensive loss	(75)
Treasury stock, at cost, 403,845 shares at March 31, 2003 and 349,745 shares at June 30, 2002	(2,448)
Total stockholders' equity	52,831
Total liabilities and stockholders' equity	$73,573

See accompanying notes.

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

	THREE MONTHS ENDED		NINE MO
	MARCH 31, 2003	MARCH 31, 2002	MARCH 31, 2003
Revenues from ground segment systems, networks and enterprise solutions	$ 9,231	$ 15,120	$ 29,249
Revenues from data communications services	3,261	5,172	10,733
Total revenues	12,492	20,292	39,982
Costs and operating expenses:			
Costs from ground segment systems, networks and enterprise solutions	8,967	13,166	27,446
Costs from data communications services	3,697	6,698	14,470
Selling and marketing	1,513	1,581	4,760
Research and development	131	366	553
General and administrative	2,277	2,179	6,651
Total costs and operating expenses	16,585	23,990	53,880
Loss from operations	(4,093)	(3,698)	(13,898)
Other income (expense):			
Interest income	73	190	359
Interest expense	(76)	(237)	(539)
Net loss	$ (4,096)	$ (3,745)	$(14,078)
Basic and diluted net loss per common share	$ (0.33)	$ (0.29)	$ (1.12)
Weighted-average shares used in the calculation of basic and diluted net loss per common share	12,557	12,753	12,569

See accompanying notes

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GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 2003
(IN THOUSANDS)
(UNAUDITED)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREA SHARE
Balance at June 30, 2002	12,933	$13	$123,598	$(54,260)	$(44)	35
Issuance of common stock in connection with employee stock purchase plan	25		81			
Purchases of treasury stock						5
Comprehensive loss:						
Net loss				(14,078)		
Gain from foreign currency translation					25	
Unrealized loss on available-for-sale equity securities					(56)	
Total comprehensive loss						
Balance at March 31, 2003	12,958	$13	$123,679	$(68,338)	$(75)	40

See accompanying notes.

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

NINE MONTHS E

	MARCH 31, 2003	M
OPERATING ACTIVITIES:		
Net loss	$(14,078)	
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,883	
Provision for doubtful accounts	108	
Gain on termination of capital lease	(959)	
Stock compensation expense	--	
Change in deferred liabilities	(1,641)	
Changes in operating assets and liabilities:		
Accounts receivable	4,377	
Inventories	(3,060)	
Prepaid expenses and other current assets	335	
Other assets	(1,103)	
Accounts payable	(3,315)	
Deferred revenue	2,321	
Accrued payroll and related fringe benefits	339	
Other accrued expenses	130	
Net cash used in operating activities	(13,663)	
INVESTING ACTIVITIES:		
Purchases of fixed assets	(776)	
Net cash used in investing activities	(776)	
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	--	
Proceeds from sale of common stock in connection with employee stock purchase plan	81	
Payments under capital lease	(270)	
Purchases of treasury stock	(181)	
Net cash used in financing activities	(370)	
Effect of foreign currency translation on cash	3	
Net decrease in cash and cash equivalents	(14,806)	
Cash and cash equivalents at beginning of period	38,708	
Cash and cash equivalents at end of period	$23,902	

See accompanying notes.

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(UNAUDITED)

1. BASIS OF PRESENTATION

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

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

Principles of Consolidation

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

Sale of Stock by Subsidiary

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

Accounting Estimates

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

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements, for its production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. The Company's standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than the Company's long-term complex production-type projects. Revenue is recognized on the Company's standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customers' contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70%

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

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

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

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

Costs from Ground Segment Systems, Networks and Enterprise Solutions

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

Costs from Data Communications Services

Costs from data communications services relating to Internet access service fees consist primarily of satellite space segment charges and Internet connectivity fees. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from leased satellites, depreciation relating to a capitalized satellite transponder lease (terminated in February 2003) and network operations expenses which consist primarily of costs associated with the operation of the Network Operation Center (the "NOC"), including depreciation, teleport services and maintaining a twenty-four hour a day, seven-day a week staff to monitor the operations of the NOC.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired from the buyback of the minority interests of NetSat. In accordance with Statement of Financial Accounting Standards ("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 Company will perform this test in the fourth quarter of fiscal 2003.

The net carrying value of goodwill is approximately $7,204,000, at March 31, 2003 and June 30, 2002, which relates to the buyback of the minority interests of NetSat.

Comprehensive loss

Comprehensive loss for the three and nine months ended March 31, 2003 of approximately $4,126,000 and $14,109,000, respectively, includes a foreign currency translation (loss) gain of approximately ($17,000) and $25,000 and an unrealized loss on available-for-sale equity securities of approximately $13,000 and $56,000 for the three and nine months ended March 31, 2003, respectively. Comprehensive loss for the three and nine months ended March 31, 2002 of approximately $3,788,000 and $9,627,000, respectively, includes a foreign currency translation (loss) gain of approximately ($13,000) and $47,000, and an unrealized loss on available-for-sale equity securities of approximately $30,000 for the three and nine months ended March 31, 2002, respectively.

Income Taxes

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

2. BASIC AND DILUTED NET LOSS PER COMMON SHARE

The Company computes net loss per common share in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic and diluted net loss per common share is computed by dividing the net loss for the period by the weighted-average number of common and dilutive equivalent shares outstanding for the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of preferred stock (using an if-converted method) and incremental shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Incremental common equivalent shares are excluded from the calculation of diluted net loss per common share if their effect is anti-dilutive. Diluted net loss per common share for the three and nine months ended March 31, 2003 excludes the effect of approximately 100 and 1,600 stock options, respectively, as their effect would have been anti-dilutive. Diluted net loss per common share for the three and nine months ended March 31, 2002 excludes the effect of approximately 302,000 and 163,000 stock options, respectively, as their effect would have been anti-dilutive.

3. INVENTORIES

Inventories consist of the following:

	MARCH 31, 2003 (UNAUDITED)	JUNE 30, 2002
	(IN THOUSANDS)	
Raw materials and component parts	$957	$876
Work-in-progress	11,264	7,718
	12,221	8,594
Less progress payments under long-term contracts	563	--
	$11,658	$8,594

4. FAIR VALUE DISCLOSURE OF STOCK OPTIONS

Interim pro-forma information regarding net loss and net loss per common share is required by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, if the Company accounts for its stock options granted under the intrinsic value method. The fair value of options granted under the Company's 1997 Stock Incentive Plan was estimated at date of grant using a Black-Scholes option pricing model.

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The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options under the Black-Scholes option valuation model.

For purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro-forma information is as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 31, 2003	MARCH 31, 2002	MARCH 31, 2003	MARCH 31, 2002
	(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)			
Reported net loss	$(4,096)	$(3,745)	$ (14,078)	$ (9,644)
Pro-forma stock compensation expense	(594)	(763)	(2,057)	(2,181)
Pro-forma net loss	$(4,690)	$(4,508)	$ (16,135)	$ (11,825)
Reported basic and diluted net loss per common share	$ (0.33)	$ (0.29)	$ (1.12)	$ (0.76)
Pro-forma basic and diluted net loss per common share	$ (0.37)	$ (0.35)	$ (1.28)	$ (0.93)

5. SEGMENT INFORMATION

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

The Company's reportable segments are business units that offer different products and services. The reportable segments are each managed separately because they provide distinct products and services.

The following is the Company's business segment information for the three and nine months ended March 31, 2003 and 2002 and as of March 31, 2003 and June 30, 2002:

	THREE MONTHS ENDED		NINE MONTHS E
	MARCH 31, 2003	MARCH 31, 2002	MARCH 31, 2003

	(UNAUDITED) (IN THOUSANDS)		
Revenues:			
Ground segment systems, networks and enterprise solutions	$ 9,231	$ 15,120	$ 29,249
Data communications services	3,261	5,172	10,733
Total revenues	$ 12,492	$ 20,292	$ 39,982
Loss from operations:			
Ground segment systems, networks and enterprise solutions	$ (2,735)	$ (1,477)	$ (7,412)
Data communications services	(1,362)	(2,224)	(6,496)
Interest income	73	190	359
Interest expense	(76)	(237)	(539)
Intercompany eliminations	4	3	10
Net loss	$ (4,096)	$ (3,745)	$ (14,078)
Depreciation and amortization:			
Ground segment systems, networks and enterprise solutions	$ 299	$ 351	$ 1,321
Data communications services	404	461	1,572
Intercompany eliminations	(4)	(3)	(10)
Total depreciation and amortization	$ 699	$ 809	$ 2,883
Expenditures for long-lived assets:			
Ground segment systems, networks and enterprise solutions	$ 17	$ 51	$ 88
Data communications services	224	186	728
Intercompany eliminations	(1)	-	(40)
Total expenditures for long-lived assets	$ 240	$ 237	$ 776

	MARCH 31, 2003 (UNAUDITED)	JUNE 30, 2002
	(IN THOUSANDS)	
Assets:		
Ground segment systems, networks and enterprise solutions	$ 119,804	$ 123,484
Data communications services	9,870	20,106
Intercompany eliminations	(56,101)	(43,293)
Total assets	$ 73,573	$ 100,297

6. COMMITMENTS AND CONTINGENCIES

In February 2003, the Company reached an agreement with one of its vendors, which reduced the Company's satellite bandwidth obligations. Under the terms of this agreement, the Company paid a one-time termination fee of $0.6 million, assigned $4.6 million of future contract revenues to the vendor and reduced the Company's future space segment obligations by $16.6 million. The difference between the reduction of capital lease obligation of $9.8 million and the reduction of net fixed assets of $8.9 million or $0.9 million less the one-time termination fee of $0.6M was recorded as a deferred gain of $0.3 million. The gain is being deferred as the Company has guaranteed six months of revenues totaling $0.3 million, assigned to the vendor. If the assigned revenues are not paid to the vendor, the Company will be responsible to satisfy the obligation. The deferred liability will be amortized into income monthly when the guaranteed payments are satisfied.

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

7. RELATED PARTY TRANSACTION

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

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

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

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

OVERVIEW

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Certain of our accounting policies require judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty.

These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Actual results may differ from these judgments under different assumptions or conditions. Our accounting policies that require management to apply significant judgment include:

REVENUE RECOGNITION

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

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

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

COSTS FROM GROUND SEGMENT SYSTEMS, NETWORKS AND ENTERPRISE SOLUTIONS

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

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired from the buyback of the minority interests of NetSat. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually. The Company will perform this test in the fourth quarter of fiscal 2003.

In assessing goodwill, which we will undertake in the fourth quarter of fiscal 2003, we will make assumptions regarding the estimated future cash flows and other factors to determine the fair value of goodwill. Future events could cause us to conclude that impairment indicators exist and that the goodwill associated with NetSat is impaired. Any resulting impairment could have a material adverse effect on our financial condition and results of operations.

ALLOWANCES FOR DOUBTFUL ACCOUNTS

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

INVENTORIES

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

RESULTS OF OPERATIONS

Three and Nine Months Ended March 31, 2003 and 2002

Revenues from Ground Segment Systems, Networks and Enterprise Solutions. Revenues decreased by $5.9 million, or 38.9%, to $9.2 million for the three months ended March 31, 2003 and decreased by $20.8 million, or 41.6%, to $29.2 million for the nine months ended March 31, 2003, compared to $15.1 million and $50.1 million for the three and nine months ended March 31, 2002, respectively. The decrease relates to a decrease in shipment and/or completion of contracts as a result of a decline in bookings of contract orders due to the continued uncertainty surrounding the global economic slowdown in the telecommunications industry, resulting in customers and prospects continuing to delay projects. We expect the trend in revenues that adversely affected our results of operations for the nine months ended March 31, 2003 to continue to adversely impact us.

Revenues from Data Communications Services. Revenues decreased by $1.9 million, or 36.9%, to $3.3 million for the three months ended March 31, 2003 and decreased by $6.3 million, or 37.1%, to $10.7 million for the nine months ended March 31, 2003, compared to $5.2 million and $17.1 million for the three and nine months ended March 31, 2002, respectively. The decrease reflects changes in market conditions, including the global economic slowdown in the telecommunications industry, pricing pressures in the marketplace and penetration of fiber into areas where we have traditionally provided services, coupled with the termination of services from our largest Middle East customer in August 2002. During February 2003 and October 2002, pursuant to agreements reached with two of our vendors, we assigned contracts with future revenues of $36.2 million, which reduced our monthly recurring revenues by approximately $0.4 million. We expect the trend in revenues that adversely affected our results of operations for the nine months ended March 31, 2003 to continue to adversely impact us.

Costs from Ground Segment Systems, Networks and Enterprise Solutions. Costs from ground segment systems, networks and enterprise solutions decreased by $4.2 million, or 31.9%, to $9.0 million for the three months ended March 31, 2003 and decreased by $17.2 million, or 38.5%, to $27.4 million for the nine months ended March 31, 2003, compared to $13.2 million and $44.6 million for the three and nine months ended March 31, 2002, respectively. The decrease is attributable to the lower revenue base. Costs as a percentage of related revenues increased to 97.1% and 93.8% for the three and nine months ended March 31, 2003, respectively, compared to 87.1% and 89.1% for the three and nine months ended March 31, 2002, respectively. The increase was mainly attributable to competitive margin pressure and cost overruns on a major project.

Costs from Data Communications Services. Costs from data communications services decreased by $3.0 million, or 44.8%, to $3.7 million for the three months ended March 31, 2003 and decreased by $5.7 million, or 28.4%, to $14.5 million for the nine months ended March 31, 2003 compared to $6.7 million and $20.2 million for the three and nine months ended March 31, 2002, respectively. Costs as a percentage of related revenues decreased to 113.4% for the three months ended March 31, 2003 and increased to 134.8% for the nine months ended March 31, 2003, compared to 129.5% and 118.5% for the three and nine months ended March 31, 2002, respectively. The decrease for the three-month period is primarily due to agreements reached with two of our vendors during February 2003 and October 2002, in which we significantly reduced our space segment transponder costs and obligations. These agreements will continue to reduce our future monthly space segment costs. The increase in the nine month period is primarily due to a lower revenue base resulting from the assignment of $36.2 million in contract revenues, the termination of services from our largest Middle East customer in August 2002 and the global economic slowdown in the telecommunications industry.

Selling and Marketing. Selling and marketing expenses decreased by $0.1 million, or 4.3%, to $1.5 million for the three months ended March 31, 2003 and decreased by less than $0.1 million, or 0.9%, to $4.8 million for the nine months ended March 31, 2003, compared to $1.6 million and $4.8 million for the three and nine months ended March 31, 2002, respectively. The decrease is primarily due to reduced salary and salary related expenses, offset by one-time severance costs associated with reductions in sales and marketing personnel. We expect to experience some reduction in salary expenses, as the fourth quarter will not be burdened with severance costs.

Research and Development. Research and development expenses decreased by $0.2 million, or 64.2%, to $0.1 million for the three months ended March 31, 2003 and decreased by $0.2 million, or 29.6%, to $0.6 million for

the nine months ended March 31, 2003, compared to $0.4 million and $0.8 million for the three and nine months ended March 31, 2002, respectively. The decrease is attributable to reduced internal development of monitoring and control technologies. Additionally, for the nine months ended March 31, 2002 we incurred one-time costs associated with the development of various initial subsystems for solutions to be provided to a new customer.

General and Administrative. General and administrative expenses increased by $0.1 million, or 4.5%, to $2.3 million for the three months ended March 31, 2003 and increased by $0.1 million, or 2.3%, to $6.7 million, for the nine months ended March 31, 2003, compared to $2.2 million and $6.5 million for the comparable three and nine months ended March 31, 2002, respectively. The increase is primarily due to an increase in legal expenses, mainly related to pursuing available remedies to recover monies owed for services rendered and liquidating damages associated with the termination of services from our largest Middle East customer in August 2002 and an increase in insurance premiums based on the current operating environment. General and administrative expenses as a percentage of revenues for the three months ended March 31, 2003 increased to 18.2% compared to 10.7% for the three months ended March 31, 2002 and increased for the nine months ended March 31, 2003 to 16.6% compared to 9.7% for the nine months ended March 31, 2002, principally due to the decrease in our revenues.

Interest Income. Interest income decreased by $0.1 million, or 61.6%, to $0.1 million for the three months ended March 31, 2003, compared to $0.2 million for the three months ended March 31, 2002, and decreased by $0.5 million, or 58.6%, to $0.4 million for the nine months ended March 31, 2003, compared to $0.9 million for the nine months ended March 31, 2002. The decrease is primarily the result of a decrease in cash and cash equivalents due to cash used in our operations during the past twelve months ended March 31, 2003, coupled with a decline in interest rates.

Interest Expense. Interest expense decreased by $0.2 million, or 67.9%, to $0.1 million for the three months ended March 31, 2003, compared to $0.2 million for the three months ended March 31, 2002, and decreased by $0.2 million, or 25.2%, to $0.5 million for the nine months ended March 31, 2003, compared to $0.7 million for the nine months ended March 31, 2002. The decreases are the result of less interest paid on our capital lease obligation, which was terminated in February 2003.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2003, we had working capital of $28.3 million, including cash and cash equivalents of $23.9 million, restricted cash of $0.6 million, net accounts receivable of $10.6 million, inventories of $11.7 million, prepaid expenses and other current assets of $0.8 million and deferred income taxes of $0.1 million, offset by $9.6 million in accounts payable, $5.9 million in deferred revenues and $3.9 million in accrued expenses and other current liabilities.

Net cash used in operating activities during the nine months ended

March 31, 2003 was $13.7 million, which primarily related to the net loss of $14.1 million, a decrease in accounts payable of $3.3 million relating to the reduction in business levels, an increase in inventory of $3.1 million from materials purchased for anticipated fourth quarter shipments, and a decrease in deferred liabilities of $1.6 million associated with agreements reached in February 2003 and October 2002 with two of our vendors, offset by a decrease in accounts receivable of $4.4 million due to collections on certain contract billings and the reduction in revenues, depreciation and amortization expense of $2.9 million related primarily to the network operation center and one satellite space segment transponder (terminated in February 2003) and a $2.3 million increase in deferred revenues due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts.

We currently have a $5.0 million working capital line of credit, which bears interest at the prime rate (4.25% at March 31, 2003) and is collateralized by a first security interest on most of our assets. On April 11, 2003 the credit facility was renewed for an additional three months while the Company works to establish a new bank agreement. The credit facility, which expires on July 10, 2003, contains certain financial covenants, with which we were in compliance at March 31, 2003. As of March 31, 2003, no amounts were outstanding under this credit facility, however, there were outstanding standby letters of credit, bid proposals and performance guarantees of approximately $2.0 million, which were applied against and reduced the amounts available under the working capital line of credit. We cannot assure you that we will be able to further renew the credit facility or as to the amount or terms of any future facility.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through 2008. Future minimum lease payments due on these leases through March 31, 2004 are approximately $6.7 million.

At March 31, 2003 we had contractual obligations and commercial commitments as follows (in thousands):

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
CONTRACTUAL OBLIGATIONS					
Operating leases	$27,662	$ 6,650	$12,183	$ 7,861	$ 968
Total contractual obligations	$27,662	$ 6,650	$12,183	$ 7,861	$ 968
OTHER COMMERCIAL COMMITMENTS					
Standby letters of credit	$ 1,059	$ 922	$ 12	$ 125	--
Performance guarantees	974	974	--	--	--
Total commercial commitments	$ 2,033	$ 1,896	$ 12	$ 125	--

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

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

We expect that our cash and working capital requirements for operating activities will increase as we continue to implement our business strategy. Management anticipates that we will experience negative cash flows due to continued operating losses and additional working capital requirements for work in progress for new orders as obtained. Our expectation is that working capital requirements will ease as shipments are made on new orders, although we cannot assure you as to the timing and amount of new orders.

NetSat has had, and we expect it will continue to have, working capital requirements, which have, and will, put increased pressure on our capital resources. We have implemented strategies to reduce the drain on our resources caused by NetSat's losses. While we will continue to seek additional means to reduce NetSat's cost structure, we can only achieve our goal of improving NetSat's working capital by generating additional revenues. We cannot assure you that we will successfully increase NetSat's revenue base.

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the ground segment systems, networks, and data communications services business, the nature and timing of customer orders and the extent to which we must conduct research and development efforts internally. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements through March 31, 2004. However, we cannot assure you that there will be no unforeseen events or circumstances that would consume available resources significantly before that time. For example, future events occurring in response to the war with Iraq, or in connection with a war, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our products and services in the United States and internationally may impact our results of operations. Unexpected events negatively impacting international commerce, like the current SARS epidemic, could defer our ability to close contracts with international customers. Additional funds may not be available when needed and, even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms

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

RISK FACTORS

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

We have incurred significant net losses since we began operating in August 1994. We incurred net losses of $14.1 million during the nine months ended March 31, 2003, $17.3 million during the fiscal year ended June 30, 2002 and $18.7 million during the fiscal year ended June 30, 2001. As of March 31, 2003, our accumulated deficit was approximately $68.3 million. We anticipate that we will continue to incur net losses. Our ability to achieve and maintain profitability will depend upon our ability to generate significant revenues through new customer contracts and the expansion of our existing products and services, including our data communications services. We cannot assure you that we will be able to obtain new customer contracts or generate significant additional revenues from those contracts or any new products or services that we introduce. Even if we become profitable, we may not sustain or increase our profits on a quarterly or annual basis in the future.

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

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

RISKS ASSOCIATED WITH OPERATING IN INTERNATIONAL MARKETS COULD RESTRICT OUR ABILITY TO EXPAND GLOBALLY AND HARM OUR BUSINESS AND PROSPECTS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NetSat's revenues from data communications services have decreased during the nine months ended March 31, 2003. As of March 31, 2003, its future revenues will be reduced by $33.5 million based on customer contracts assigned to vendors pursuant to settlement agreements reached in February 2003 and October 2002. NetSat's future revenues and results of operations are dependent on its execution of its business strategy and development of the market for its current and future services. In particular, the current level and manner of utilization of NetSat's transponder space, as well as a decrease in orders currently being experienced, continues to harm our results of operation. Despite the agreements reached with two of the Company's vendors in February 2003 and October 2002, which modified and reduced the Company's satellite bandwidth obligations, we cannot assure you that the transponder space will be efficiently and substantially utilized or that an increase in orders will be realized. NetSat has had, and we expect will continue to have, significant cash requirements, which have and will decrease our cash resources. If NetSat does not efficiently and substantially utilize its transponder space capacity or increase its level of orders, its cash requirements may increase and our results of operations will be harmed.

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

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

- delays and/or a decrease in the booking of new contracts;
- general political and economic conditions in the United States and abroad, including the war in Iraq;
- the length of time needed to initiate and complete customer contracts;
- the demand for and acceptance of our existing products and services;

- the cost of providing our products and services;
- the introduction of new and improved products and services by us or our competitors;
- market acceptance of new products and services;
- the mix of revenue between our standard products, custom-built products and our communications services;
- the timing of significant marketing programs;
- our ability to hire and retain additional personnel;
- the competition in our markets; and
- difficult global economic conditions and the currency devaluations in international markets, which have adversely impacted and may continue to adversely impact our quarterly results.

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

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

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

In the communications services and Internet access services markets, we compete with other satellite communication companies who provide similar services, like Loral CyberStar, Inc. and PanAmSat Corporation and Verestar, as well as other ISPs. In addition, we may compete with other communications service providers, MCI WorldCom Inc., and satellite owners like New Skies Satellites N.V. and Intelsat. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. These competitors may have the financial resources to withstand substantial price competition and may be in a better position to endure difficult economic conditions in international markets, and may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances than we do that they could use to their advantage in competitive situations.

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

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

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

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

We have incurred negative cash flows from operations in each year since our inception. We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through March 31, 2004. However, our future liquidity and capital requirements are difficult to predict, as they depend on numerous factors, including the success of our existing product and service offerings, as well as competing technological and market developments. In particular, NetSat continues to have cash requirements, which may continue in the future. We cannot assure you that we will be able to further renew our credit facility or as to the amount or terms of any future facility. We may need to raise additional funds in order to meet additional working capital requirements and to support additional capital expenditures. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If adequate funds are unavailable, we may be required to delay, reduce or eliminate some of our operating activities, including marketing programs and research and development programs. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

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

We rely on a small number of customer contracts for a large portion of our revenue. Specifically, we have agreements with six customers to provide equipment and services, from which we expect to generate a significant portion of our revenues. If any of these customers is unable to implement its business plan, the market for its services declines, or if all or any of the 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 adversely affected.

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

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

- the speed at which communications infrastructure, including terrestrial microwave, coaxial cable and fiber optic communications systems, which compete with satellite-based services, is built;

- the effectiveness of our local resellers and sales representatives in marketing and selling our products and services; and

- the acceptance of our products and services by customers.

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

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

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

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

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

We currently have been granted three patents in the United States, one for remote access to the Internet using satellites, another for satellite communication with automatic frequency control, and, most recently, we have been granted a patent concerning a monitor and control system for satellite communications networks and the like. We currently have one Patent Cooperation Treaty ("PCT") patent application pending for implementing facsimile (fax) and data communications using Internet protocols. We also intend to seek further patents on our technology, if appropriate. We cannot assure you that patents will be issued for any of our pending or future patents or that any claims allowed from such applications will be of sufficient scope, or be issued in all countries where our products and services can be sold, to provide meaningful protection or any commercial advantage to us. Also, our competitors may be able to design around our patents. The laws of some foreign countries in which our products and services are or may be developed, manufactured or sold may not protect our products and services or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products and services more likely.

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATED TO GOVERNMENT APPROVALS

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

OPERATIONS AND USE OF SATELLITES

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communication Commission, or FCC, licensed earth stations in Hauppauge, New York, subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of FCC. Pursuant to the FCC Act and rules, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. These licenses should be renewed by the FCC in the

normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that the FCC will grant additional licenses when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our earth stations. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our earth stations. 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 OWNERSHIP

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

FOREIGN REGULATIONS

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

REGULATION OF THE INTERNET

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

TELECOMMUNICATIONS TAXATION, SUPPORT REQUIREMENTS, AND ACCESS CHARGES

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

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

EXPORT OF TELECOMMUNICATIONS EQUIPMENT

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our objective 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 for certain purchases from foreign vendors, if applicable. Accordingly, we utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. During the nine months ended March 31, 2003 and the fiscal year ended June 30, 2002, we had no such foreign currency forward contracts.

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

ITEM 4. CONTROLS AND PROCEDURES

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

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the disclosure controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

On August 6, 2002, we issued a notice of termination to a major customer in the Middle East for failure to pay for services rendered, and included a demand for full payment of the past due balance and specified liquidated damages for early termination. The customer responded by issuing its own notice of termination claiming certain breaches of the contract by NetSat, which claims we have denied. The contract requires settlement of disputes by arbitration to be held in New York. We intend to fully pursue all available remedies to recover monies owed for services rendered and for liquidated damages, including arbitration if required and have retained outside counsel to assist in this matter. To that end, NetSat initiated the arbitration process in December 2002 when its outside counsel prepared and served NetSat's Notice of Arbitration and Statement of Claim on the terminated Middle East customer. NetSat and its customer were unable to agree on an arbitrator and, as per the rules of arbitration stated in the contract, an arbitrator will be selected by an independent organization. On April 25, 2003, the International Chamber of Commerce nominated three (3) candidates and a decision on the final arbitrator is expected by the end of May 2003.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Index to Exhibits:

Exhibit No.

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

4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated

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

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

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

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

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

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

10.6* Stock Purchase Agreement dated as of August 30, 1996 by and between C-Grams Unlimited Inc. and the Registrant (incorporated by reference to Exhibit 10.6 of the Registration Statement).

10.7 Memorandum of Understanding dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to Exhibit 10.7 of the Registration Statement).

10.8 Stock Purchase Agreement dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by reference to Exhibit 10.8 of the Registration Statement).

10.9 Employment Agreement dated as of October 9, 2001 by and between David E. Hershberg and the Company (incorporated by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.10 Employment Agreement dated as of October 9, 2001 by and between Kenneth A. Miller and the Company (incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

10.11 Purchase and Sale Agreement, 45 Oser Avenue, Hauppauge, New York, dated December 12, 1996 by and between Eaton Corporation and the Registrant (incorporated by reference to Exhibit 10.13 of the Registration Statement).

10.12 1997 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 of the Registration Statement).

10.13 Investment Agreement dated August 21, 1998 by and between McKibben Communications LLC and the Registrant (incorporated by reference to

Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).

10.14 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the S-8 Registration Statement).

10.15 Rights Agreement, dated as of December 3, 1998, between the Company and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Company's Current Report on Form 8-K dated December 3, 1998).

10.16 Common Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and Globix Corporation (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

10.17 Series A Preferred Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and George Soros (incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

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

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

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

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

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

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

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

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

10-Q, for the quarter ended September 30, 2001).

10.26 Promissory Note Secured By Stock Pledge Agreement, dated September 4, 2001, by and between Kenneth A. Miller and the Company (incorporated by reference to Exhibit 10.26 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

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

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

10.29 Separation Agreement and General Release, dated as of January 22, 2003, by and between G. Patrick Flemming and the Company (incorporated by reference to Exhibit 10.29 of the Company's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2002).

10.30 Letter Agreement, dated as of January 31, 2003, by and between Donald G. Woodring and the Company (incorporated by reference to Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2002).

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

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

* Confidential treatment granted for portions of this agreement.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on May 14, 2003 with respect to its fiscal 2003 third quarter and nine-month financial results.

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: May 15, 2003 /s/ DAVID E. HERSHBERG

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

Date: May 15, 2003 /s/ ANDREW C. MELFI

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

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CERTIFICATION FOR FORM 10-Q
FOR PERIOD ENDED MARCH 31, 2003

I, David E. Hershberg, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2003

/s/ DAVID E. HERSHBERG

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

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CERTIFICATION FOR FORM 10-Q
FOR PERIOD ENDED MARCH 31, 2003

I, Andrew C. Melfi, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2003

/s/ ANDREW C. MELFI

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

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