

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

GLOBECOMM SYSTEMS INC
Form 10-K
September 30, 2002

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

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)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, \$.001 par value
(Title of class)

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

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

As of September 26, 2002, there were 12,583,317 shares of the registrant's common stock, \$0.001 par value, outstanding, and the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$30.4 million based on the last reported sale price on the Nasdaq National Market on that date.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement of Globecomm Systems Inc. relative to the 2002 Annual Meeting of Stockholders to be held on November 21, 2002, is incorporated by reference into Part III of this Annual Report on Form 10-K.

2

PART I

ITEM 1. BUSINESS

OVERVIEW

Globecomm Systems Inc., or Globecomm, was incorporated in Delaware in August 1994. We offer end-to-end, value-added satellite-based communications infrastructure and services. We do this by leveraging our core satellite ground segment systems and network capabilities, with the satellite services capabilities that are generally provided by our wholly-owned subsidiary, NetSat Express, Inc., or NetSat. The services we offer include wide area network connectivity, broadband connectivity to end users, Internet connectivity, content delivery network services, media distribution and other network services on a global basis. To provide these services, we engineer all the necessary satellite and terrestrial facilities as well as provide the integration services required to implement those facilities. We also operate and maintain these communications services on an ongoing basis. Our customers generally have network service requirements that require point-to-point or point-to-multipoint connections via a hybrid network of satellite and terrestrial facilities, and include communications service providers, commercial enterprises, multinational corporations, Internet Service Providers, or ISPs, broadcasters and other content providers and government entities. Our service business is built on the foundation of our core business as a supplier of ground segment systems and networks for satellite-based communications. We provide these ground segment systems and networks on a contract basis. These implementations include the necessary hardware and software to support a wide range of network applications using satellite, broadcast and terrestrial technologies.

NetSat provides end-to-end satellite-based service solutions around the world. NetSat offers ISPs, commercial enterprises, broadcasters and government customers a wide range of network service solutions, including Internet backbone connectivity, content delivery network applications, back-office capabilities, communications points of presence, or POP, infrastructure, and network management services. We incorporate NetSat services as part of our "one stop shopping" solutions that include systems infrastructure and related network services for our customers.

SERVICES AND PRODUCTS

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

OUR GROUND SEGMENT SYSTEMS AND NETWORKS

We design, engineer, integrate and install satellite-based ground segment systems and network solutions for the complex and changing communications requirements of our customers. Our ground segment systems typically consist of an earth station and ancillary subsystems. An earth station is an integrated system consisting of antennas, radio signal transmitting and receiving equipment, modulation/demodulation equipment, monitor and control systems and voice, data and video network interface equipment. Ancillary subsystems may include microwave links or fiber optic links for the transmission of communications traffic to a central office, or generators for emergency power requirements. Our customizable modular earth stations may be sold separately as stand-alone ground segment systems or may be used as building blocks to be integrated into a complete ground segment system or network. We believe that this modular approach allows us to engineer our ground segment systems and networks to serve client-specific service requirements rapidly, cost-effectively and efficiently with minimal site preparation. All of our earth stations are configurable to conform to applicable satellite standards.

MODULAR BUILDING BLOCK EARTH STATION. These earth stations provide point-to-point high-capacity data links and hubs for satellite networks. Generally, all electronics are housed in an indoor equipment enclosure. We typically sell these earth stations at prices ranging from approximately \$250,000 to \$600,000.

3

COMMERCIAL TERMINAL. This family of earth stations encompasses a range of general purpose, medium-capacity earth stations, and is principally used by corporate, common carrier and government networks. Generally, all radio frequency electronics are housed in weatherproof enclosures mounted on the antenna. The satellite modem is housed in an indoor equipment enclosure. We typically sell these earth stations at prices ranging from approximately \$100,000 to \$300,000.

COMPACT EARTH STATION. We designed this family of digital earth stations to be used principally to provide limited capacity to areas with limited or no telecommunications infrastructure. These earth stations integrate radio frequency and satellite modem components into one antenna mounted package. We typically sell these earth stations at prices ranging from approximately \$20,000 to \$45,000.

EXPLORER C/K TRANSPORTABLE EARTH STATION. We designed this family of digital earth stations primarily for emergency communications and news gathering. The group is comprised of portable, modular earth stations designed to be quickly deployed and operated anywhere in the world. The latest model, the Explorer Ku, incorporates technology from the Compact Earth Station product line to minimize cost, size and weight. All components are mounted in separate cases, which are small enough to be easily transported by commercial carriers, including airplanes and trucks. We market these earth stations at prices ranging from approximately \$50,000 to \$100,000.

EXPLORER II MOBILE TERMINAL. We designed this family of digital terminals to serve the mobile satellite services market for high-speed data and voice terminals with optional video conferencing. We offer the Explorer II, a high-speed data terminal for use in news gathering, emergency communications, data gathering, and other applications

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

requiring mobility and data at rates of 64 kilobits per second, or Kbps. We typically sell these earth stations at prices ranging from approximately \$20,000 to \$50,000.

OUR COMMUNICATIONS SERVICES

We tailor our communication services to meet our customers' needs by offering standardized services and custom-engineered solutions. Our standardized services may be sold separately or may be used as building blocks as a part of a custom-engineered solution. We use our expertise in satellite communications, Internet Protocol, communications networks and information technology in designing our custom-engineered solutions.

STANDARDIZED SERVICES

WIDE AREA NETWORK ANYWHERE.(TM) This service offering provides high-speed networking between major POPs. We are currently providing point-to-point service to customers who require connections from our Long Island International Teleport in New York to POPs in Latin America and the Middle East.

SKYBORNE.(SM) This service offering provides point-to-multipoint content delivery of multimedia content. Content providers and large ISPs are using content delivery services that can enhance access to multimedia and static content for their users and enhance web site response times by avoiding delays and outages caused by public network congestion. Content delivery networks can be implemented effectively using satellite Internet Protocol based broadcasting to very small, low cost receiving earth terminals, with high data rates. We also provide business application services for the storage and scheduling of content for our customers.

INTRANET ANYWHERE.(TM) The technologies which have been developed for the Internet have been used in the creation of private corporate networks, or intranets. Intranets provide employees in geographically dispersed locations with access to corporate databases and other private corporate

4

information. This service offering provides secure high-speed two way data transmission directly to local area networks using standards-based satellite receiver technology. We intend to offer this service to customers requiring secure high-speed data transmission between corporate headquarters and one or more remote offices, and as the return link for our SKYBORNE(SM) services.

ISDN ANYWHERE.(TM) This service offering provides full-time connections at rates of 64 Kbps and 128 Kbps to geographically dispersed locations. We can provide these services to organizations needing full-time digital connections for voice, data and video conferencing in locations around the world where the terrestrial infrastructure is inadequate or unavailable.

BANDWIDTH ON DEMAND ANYWHERE.(TM) This service offering provides high-speed data connections for intermittent use through a bandwidth subscription service. It provides data rates from 64 Kbps up to 384 Kbps to geographically dispersed locations. Customers who have high bandwidth requirements would use this service to reduce their costs

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

when they only need intermittent services, like emergency communications services.

CUSTOM ENGINEERED SOLUTIONS

The following is an example of how we provide custom-engineered communications solutions for one of our customers:

THE CHALLENGE. We were selected by Shoreline Communications Inc., a communications service provider in the island nation of Tonga, to design and implement the voice, data, television, cellular and Internet infrastructure, as well as the connections between Tonga, where the existing communications infrastructure was inadequate, and the United States.

THE SOLUTION. We designed and continue to build a nationwide voice and data telecommunications and television broadcast network using a combination of satellite systems, terrestrial television and GSM cellular systems and local wireless communications technology. In addition, we provided Shoreline Communications with the information technology infrastructure necessary to provide Internet access from the United States Internet backbone to Tonga using satellites. We also provide international satellite connections for voice and data traffic between Tonga and Los Angeles, California, as well as the associated billing services. The voice and data satellite and terrestrial network we custom-engineered is based on a combination of network technologies, each designed to enhance delivery of a particular service. We currently provide network services in Los Angeles to operate and maintain these communications services.

5

[GRAPHIC OMITTED]

NETSAT SERVICES

The growth of the Internet has been dramatic, and this growth is projected to continue, particularly outside North America and Western Europe. Satellite-based communications benefit from this trend as many of these regions lack the terrestrial networks required to accommodate the rapid and reliable transmission of the vast amounts of information underlying the Internet. NetSat, a wholly-owned subsidiary of Globecomm, is a network service provider that offers Internet access and other network services to ISPs and other enterprises around the world. NetSat combines satellite and terrestrial communications networks to provide customers around the world high-speed access services to the United States Internet backbone, as well as the public switched telephone network for private networks. NetSat currently has customers in Africa, the Pacific Rim region, Central and South America, Eastern and Central Europe and the Middle East.

Internet Access Services

NetSat's Internet access services, marketed under the Access Plus(TM) brand name, provides high-speed access to the United States Internet backbone. NetSat provides the necessary satellite transmission services and terrestrial transit and routing services. In addition, it currently provides earth stations and the necessary installation services together with Globecomm. NetSat services are highly configurable, providing guaranteed levels of service for its customers. Its services can be implemented through its worldwide network, and global deployment capabilities through suppliers like Globecomm.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

NetSat provides a wide variety of circuit sizes, which allows it to serve large and small ISPs, communications services providers and corporations. A circuit is comprised of satellite and terrestrial components that provide the bandwidth needed by the customer. NetSat's customers lease circuits as small as 64 Kbps and as large as 45 Mbps, where a megabit is 1000 times larger than a kilobit. NetSat offers two-way circuits, providing bandwidth to and from the Internet, as well as one-way circuits, where the customer has its own return circuit through a local terrestrial connection to the Internet.

NetSat also provides a bandwidth capacity bursting option, allowing bursts of up to the full capacity of a satellite circuit. With bursting, the customer's guaranteed bandwidth is a part of a shared satellite channel with other customers who also have guaranteed bandwidths. The bursting service allows a

6

customer to acquire more bandwidth than its guaranteed when there is available bandwidth on the same shared satellite channel that NetSat has not committed to other customers.

SALES AND MARKETING

We market our products and services to communications services providers, commercial enterprises, ISPs, broadcasters and other content providers and government entities. We have structured our sales and marketing approach to respond effectively to the opportunities in the communications services market, as well as the traditional ground segment systems and networks market. Our marketing activities are organized regionally, as well as on an industry-specific basis. We use both direct and indirect sales channels to market our services and products. Our direct sales force focuses on industry-specific markets, including government, broadcast and commercial enterprises. During the fiscal year ended June 30, 2002, we increased our direct sales force to focus on targeting U.S. customers, including the government market, given the potential requirements for our products and services in the United States.

Our regional business teams sell and market our communications services and ground segment systems and networks internationally. These regional business teams are responsible for orders and programs in the regions to which they are assigned, as well as for the delivery of our products and services and for account management of our existing customers. Currently, we have business teams responsible for the Americas, the Asia-Pacific region, Africa, the Middle East and Europe.

These regional business teams work together to identify, develop and maintain customer relationships through local sales representatives, sales executives and account managers. Together, they develop close and continuing relationships with our customers. Our sales representatives in these regions provide a local presence and identify prospective customers for our sales executives. Our account managers may also function as project engineers for network integration and service initiation programs for their accounts. We believe this account management focus provides continuity and loyalty between our customers and us. We also believe that our approach fosters long-term relationships that lead to follow-on work and referrals to new customers. These accounts also provide us with a market for the new products and services that we develop. In addition, we obtain sales leads for new customers through referrals from industry suppliers.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

We have sales and marketing staff located at our headquarters in Hauppauge, New York, as well as in Hong Kong and the United Kingdom. Our office in the United Kingdom is part of our wholly-owned subsidiary, Globecomm Systems Europe Limited. These offices provide both sales and technical support in the regions for which they have responsibility. As of June 30, 2002, we employed 44 persons with sales and marketing responsibility, of which 21 are full-time sales executives and 23 have dual engineering and sales and marketing responsibilities.

Our marketing program is intended to build national and international awareness of our brand. We use direct mailings, print advertising to targeted markets and trade publications to enhance awareness and acquire leads for our direct and indirect sales teams. We create brand awareness by participating in industry trade shows sponsored by organizations like the International Telecommunications Union, the National Association of Broadcasters and the Communications Managers Association. We also provide marketing information on our web site and conduct joint marketing programs with sales representatives in various regions to reach new customers.

NetSat's marketing strategy is carried out primarily through Globecomm's sales channels including Globecomm's direct sales staff and the regional business teams, as well as direct sales and marketing through the World Wide Web.

7

CUSTOMERS

We have established a diversified base of customers in a variety of industries. Our customers include communications services providers, commercial enterprises, multinational corporations, ISPs, broadcasters and other content providers and government entities. We typically rely upon a small number of customers for a large portion of our revenues. For example, approximately 11% of our revenues in fiscal 2002 were derived from one customer. We expect that in the near term a significant portion of our revenues will continue to be derived from one or a limited number of customers (the identity of whom may vary from year to year) as we seek to expand our business and customer base.

BACKLOG

At June 30, 2002, our backlog was approximately \$80.3 million compared to approximately \$101.0 million at June 30, 2001. We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped but have not been accepted by the customer. Our backlog at any given time is not necessarily indicative of future period revenues. A substantial portion of our backlog is comprised of large orders, the cancellation of any of which could have a material adverse effect on our operating results. For example, at June 30, 2002, \$45.6 million, or approximately 56.8%, of our backlog represented contracts with five customers. We cannot assure you that these contracts or any others in our backlog will not be cancelled or revised. See "Risk Factors" beginning on page 29.

COMMUNICATIONS INFRASTRUCTURE

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

We built and own the teleport facility located at our headquarters in Hauppauge, New York. We are a member of the World Teleport Association (WTA) and were awarded the Teleport Operator of the Year award from the WTA for the year 2000. Our teleport is designed to meet the most stringent requirements for high-speed data communications requirements. This teleport is used to transmit and receive signals from satellites positioned to serve customers in Latin America, the United States, Canada, Europe, the Middle East and Africa. Our teleport uses redundant critical systems and uninterruptible power supplies with back-up power generation.

NetSat also leases teleport services in Los Angeles to transmit and receive signals from satellites positioned to serve customers in the Pacific Rim region. Connection to the United States Internet backbone in Los Angeles is achieved through leased fiber optic circuits.

We, along with NetSat, lease transponder capacity to meet the bandwidth needs of our and their customers. NetSat leases multiple, redundant, high-capacity fiber connections to provide reliable Internet data, voice and data traffic to locations in New York City where it interconnects with telecommunications service providers and the United States Internet backbone.

NetSat has built and staffs a network operations center, or NOC, to manage its customer circuits. The NOC operates 24 hours per day, seven days per week to monitor customer circuits, respond to customer inquiries and initiate new services. Customers can purchase or lease from us, or from NetSat, as a part of its service, the equipment needed at the customers' locations to transmit and receive the satellite signals. Globecom offers installation and maintenance services for this equipment.

PRODUCT DESIGN, ASSEMBLY AND TESTING

8

We assign a project team to each contract into which we enter. Each team is led by a project engineer who is responsible for execution of the project. This includes engineering and design, assembly and testing, installation and customer acceptance. A project may include engineers, integration specialists, buyer-planners and an operations team. Our standard satellite ground segment systems are manufactured using a standard modular production process. Typically, long-term projects require significant customer-specific engineering, drafting and design efforts. Once the system is designed, the integration specialist works with the buyer-planner and the operations team to assure a smooth transfer from the engineering phase to the integration phase. The integration phase consists mainly of integrating the purchased equipment, components and subsystems into a complete functioning system. Assembly, integration and test operations are conducted on both an automated and manual basis, depending primarily on production volume.

We provide facilities for complete in-plant testing of all our systems before delivery in order to assure all performance specifications will be met during installation at the customer's site. We employ formal total quality management programs and other training programs, and have been certified by the International Organization of Standards quality certification process for ISO 9001, a standard that enumerates specific requirements an organization must follow in order to assure consistent quality in the supply of products and services. The certification process qualifies us for access to virtually all domestic and international projects, and we believe that this represents a

competitive advantage.

9

RESEARCH AND DEVELOPMENT

We have developed internal research and development resources in Internet Protocol networks, content delivery networks, broadcast systems, network management systems, and system products. The costs of developing new technologies are funded partially by the investments made by us and partially by development funded by specific customer program requirements. This approach provides us with a cost-effective means to develop new technology, while minimizing our direct research and development expenditures. Furthermore, we believe that our research and development capabilities allow us to offer added value in developing solutions for our customers, while at the same time we maintain the opportunity to develop products through our strategic supplier relationships. Our internal research and development efforts generally focus on the development of products and services not available from other suppliers to the industry. Current efforts are focused on developing content delivery network technology for our enterprise customers, broadcast systems technology for our new competitive service provider customers and broadcast customers, network management system products for all our earth terminal and network customers, and customizable systems for our government customers. For the years ended June 30, 2000, 2001 and 2002, we have incurred approximately \$0.8 million, \$0.9 million, and \$1.2 million, respectively, in internal research and development expenses.

COMPETITION

In the satellite ground segment systems and networks market, we believe that our ability to compete successfully is based primarily on management's reputation and the ability to provide a solution that meets the customer's requirements, including competitive pricing, performance, on-time delivery, reliability, and customer support.

In the communications services market, we believe that our ability to compete successfully is based primarily on management's reputation and providing prompt delivery and initiation of service, competitive pricing, consistent and reliable connections, and high-quality customer support.

Our primary competitors in the satellite ground segment systems and networks market generally fall into three groups: (1) vertically integrated satellite systems providers like Nippon Electric Corporation, (2) system integrators like IDB Systems, a division of MCI WorldCom Inc. and (3) 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., PanAmSat Corporation and Verestar, as well as other ISPs. In addition, we may compete with other communications services 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. In addition, we anticipate that continuing deregulation worldwide is expected to result in the formation of a significant number of new competitive service providers over the next two or three years.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Current and potential participants in the markets in which we compete have established or may establish cooperative relationships among themselves or with third parties. These cooperative relationships may increase the ability of their products and services to address the needs of our current and prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge that will enable them to acquire significant market share rapidly. We believe that increased competition is likely to result in price reductions, reduced gross profit margins and loss of market share, any of which would have a material adverse effect on our business, results of operations and financial condition.

10

INTELLECTUAL PROPERTY

We rely heavily on the technological and creative skills of our personnel, new product developments, computer programs and designs, frequent product enhancements, reliable product support and proprietary technological expertise in maintaining our competitive position. We have secured patent protection on some of our products, and have secured trademarks and service marks to protect some of our products and services.

We currently have two patents in the United States for remote access to the Internet using satellites and for satellite communication with automatic frequency control and have two patent applications pending in the United States and one Patent Cooperation Treaty patent application pending. We also intend to seek additional patents on our technology, if appropriate. We have filed applications for trademark registration of Globecom Systems Inc., Globecom and GSI in the United States and various other countries. NetSat has received trademark registration for NetSat in the United States, the European Community, Russia and Brazil. We have also received trademark registrations in the United States for MBB2001(TM), CTF2001(TM), CES2001(TM) and AXSYS(TM), which relate to our customizable modular earth stations. We intend to seek registration of other trademarks and service marks in the future.

GOVERNMENT REGULATIONS

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 Communications 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 the FCC. Pursuant to the FCC Act and FCC rules and regulations, 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 additional licenses will be granted by the FCC when our existing licenses expire, nor can we assure you 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.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

NetSat does not currently hold any FCC licenses, permits, or authorizations, nor does it currently provide any FCC regulated services. Therefore, it is not subject to the FCC Act or FCC rules and regulations. However, NetSat may hold such licenses, permits, or authorizations, or provide these services in the future, and would then be required to comply with the FCC requirements.

COMMON CARRIER REGULATION

We currently provide services to our customers on a private carrier basis and not as a common carrier. Were our business methods or the federal regulatory structure to change such that operating as a common carrier becomes desirable, we would be required to comply with the FCC's requirements for common carriers. These requirements include, but are not limited to, filing tariffs setting forth our rates and service terms, being forbidden from unjust and unreasonable discrimination among customers, notifying the

11

FCC before discontinuing service, and complying with FCC equal employment opportunity regulations and reporting requirements.

We do not currently provide telecommunications services between points in the same state and so are exempt from state regulation of our services. However, we could become subject to state telecommunications regulations if we did provide intrastate telecommunications services.

FOREIGN OWNERSHIP

As long as we offer services on a private basis, there are no restrictions on foreign ownership of our earth stations. If we offered services as a common carrier, however, we would be subject to statutory requirements that generally forbid more than 20% ownership or control of an FCC licensee by non-United States citizens and more than 25% ownership of a licensee's parent by non-United States citizens. The FCC may authorize foreign ownership in the licensee's parent in excess of these percentages. Under current policies, the FCC has granted these authorizations where the applicant does not control monopoly or bottleneck facilities and the foreign owners are citizens of countries that are members of the World Trade Organization or provide equivalent competitive opportunities to United States citizens.

We may, in the future, be required to seek FCC approval for foreign ownership if we operate as a common carrier and ownership of our stock exceeds the thresholds mentioned above. 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. We have no knowledge of any present foreign ownership which would result in a violation of the FCC rules and regulations.

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 operate or 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

have a material adverse impact on our business. Either we or our local sales representatives typically must obtain authorization for each country in which we provide our satellite-delivered data communications services. Although we believe that we or our local sales representatives will be able to obtain the requisite licenses and approvals from the countries in which we intend to provide products and services, the regulatory schemes in each country are different, and thus there may be instances of noncompliance of which we are not aware. Although we believe these regulatory schemes will not prevent us from pursuing our business plan, we cannot assure you that our licenses and approvals are or will remain sufficient in the view of foreign regulatory authorities. In addition, we cannot assure you that necessary licenses and approvals will be granted on a timely basis, or at all, in all jurisdictions in which we wish to offer our products and services or that the applicable restrictions will not be unduly burdensome.

REGULATION OF THE INTERNET

Our Internet operations (other than the operation of a teleport) are not currently subject to direct government regulation in the United States or most other countries, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, 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 like 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.

12

We anticipate that a substantial portion of our, or NetSat's, Internet operations will be carried out in countries which may impose greater regulation of the content of information coming into their country than that which is generally applicable in the United States. Examples of this include privacy regulations 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 otherwise negatively affect our business. In addition, the applicability to the Internet of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel and personal privacy 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. These changes could reduce demand for our products and services or could increase our cost of doing business as a result of costs of litigation or increased product development costs.

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. Some telecommunications services are subject to special taxation and to contribution requirements to support services to special groups, like persons with disabilities. At present, Globecomm is subject to the requirements for support of such special groups;

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

NetSat's operations are presently deemed not subject to such requirements. 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 in the future, to eliminate this exemption. If these access charges are imposed on telephone lines used to reach ISPs, 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 or the facilities of our customers.

EXPORT OF TELECOMMUNICATIONS EQUIPMENT

The sale of our ground segment systems, networks, and communications service solutions 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 or implement our services into some countries, these products or services must satisfy the technical requirements of the particular country. If we were unable to comply with these 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, financial condition and results of operations.

EMPLOYEES

As of June 30, 2002, we had 206 full-time employees, including 96 in engineering and program management, 55 in the manufacturing, operations support, and network operations, 21 in sales and marketing, and 34 in management and administration. Our employees are not covered by any collective-bargaining agreements. We believe that our relations with our employees are good.

13

ITEM 2. PROPERTIES

We own approximately 122,000 square feet of space in a facility on approximately seven acres located at 45 Oser Avenue, Hauppauge, New York. This facility houses our principal offices and production facilities, as well as the offices and the network operations center of NetSat. We are in the third year of a five-year lease at a base monthly rent of approximately \$3,600 for office and operations facilities for our wholly-owned subsidiary, Globecomm Systems Europe Limited, in the United Kingdom. In addition, we have a lease for office space in Hong Kong at a monthly rental fee of approximately \$3,900.

ITEM 3. LEGAL PROCEEDINGS

On July 26, 2000, we filed a lawsuit against Gilat Satellite Networks Ltd. and StarBand Communications Inc. in the United States District Court for the Eastern District of New York, charging them with infringement of our United

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

States Patent No. 5,912,883. The defendants denied infringement and challenged the validity of the patent. The litigation was settled by the parties in January 2002 and was contemporaneously dismissed by the Court pursuant to a stipulation between the parties which did not have a material effect on us.

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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Nasdaq National Market under the symbol "GCOM." The fiscal 2001 and 2002 high and low sales prices are as follows:

First Quarter Fiscal 2002.....
Second Quarter Fiscal 2002.....
Third Quarter Fiscal 2002.....
Fourth Quarter Fiscal 2002.....
First Quarter Fiscal 2001.....
Second Quarter Fiscal 2001.....
Third Quarter Fiscal 2001.....
Fourth Quarter Fiscal 2001.....

At September 26, 2002, there were approximately 3,700 stockholders of record of our common stock, as shown in the records of our transfer agent.

At the close of the Nasdaq National Market on September 26, 2002, our market price per share was \$2.61.

As of June 30, 2002, we had not declared or paid dividends on our common stock since inception and we do not expect to pay dividends in the foreseeable future.

The table below sets forth securities we have authorized for issuance under our equity compensation plans.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

EQUITY COMPENSATION PLAN INFORMATION AS OF JUNE 30, 2002

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance of equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plan approved by security holders	2,913,975	\$ 8.07	558,382
Equity compensation plans not approved by security holders	863,468	\$ 11.16	-
Total	3,777,443	\$ 8.78	558,382

The equity compensation plans, authorized for issuance that were adopted without the approval of the security holders, relate to outstanding warrants. During November 1996, we issued ten-year warrants, to five consultants to purchase an aggregate of 64,125 shares of common stock at a price per share of \$8.07, in consideration for services rendered. During the fiscal year ended June 30, 2001, we issued five-year warrants, in connection with the purchase of minority interests in NetSat, to purchase an aggregate of 807,643 shares of common stock at a price per share of \$11.375.

15

ITEM 6. SELECTED FINANCIAL DATA

Our selected consolidated financial data as of and for each of the five years in the period ended June 30, 2002 have been derived from our audited consolidated financial statements. EBITDA represents loss before minority interests in operations of our consolidated subsidiary, interest income, interest expense, provision for income taxes, depreciation and amortization expense, a gain on the sale of consolidated subsidiary's common stock and a gain on sale of investment. EBITDA does not represent cash flows defined by accounting principles generally accepted in the United States and does not necessarily indicate that our cash flows are sufficient to fund all of our cash needs. EBITDA is a financial measure commonly used in our industry and should not be considered in isolation or as a substitute for net income, cash flows from operating activities or other measures of liquidity determined in accordance with accounting principles generally accepted in the United States. EBITDA may not be comparable to other similarly titled measures of other companies. We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped but have not been accepted by the customer. Our backlog at any given time is not necessarily indicative of future

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

period revenues. Certain balances in the prior years have been reclassified to conform to the current year presentation. During the fiscal year ended June 30, 2002, we changed the presentation of our consolidated statements of operations to better represent current industry reporting practices.

16

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED JUNE 30,			
	1998	1999	2000	2001
STATEMENTS OF OPERATIONS DATA:				
Revenues from ground segment systems, networks and enterprise solutions.....	\$ 57,419	\$ 46,397	\$ 69,584	\$ 78,7
Revenues from data communications services..	686	2,661	8,987	24,1
Total revenues.....	58,105	49,058	78,571	102,9
Costs and operating expenses:				
Costs from ground segment systems, networks and enterprise solutions.....	48,515	41,235	60,634	70,9
Costs from data communications services...	1,059	2,894	10,101	22,6
Selling and marketing.....	4,187	5,183	6,139	7,2
Research and development.....	1,188	1,325	784	8
General and administrative.....	4,968	5,941	8,797	9,8
Terminated acquisition costs.....	-	972	-	-
Asset impairment charge.....	-	679	-	2,8
Restructuring charge.....	-	-	-	1,9
Total costs and operating expenses.....	59,917	58,229	86,455	116,2
Loss from operations.....	(1,812)	(9,171)	(7,884)	(13,3
Other income (expense):				
Interest income.....	1,271	980	1,727	3,1
Interest expense.....	(5)	(1)	(2,522)	(6,5
Gain on sale of consolidated subsidiary's common stock.....	-	-	2,353	-
Gain on sale of investment.....	-	-	-	3
Loss before income taxes and minority interests in operations of consolidated subsidiary.....	(546)	(8,192)	(6,326)	(16,4
Provision for income taxes.....	-	-	-	(1,6
Loss before minority interests in operations of consolidated subsidiary.....	(546)	(8,192)	(6,326)	(18,0
Minority interests in operations of consolidated subsidiary.....	-	-	2,745	(6

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Net loss.....	\$ (546)	\$ (8,192)	\$ (3,581)	\$ (18,6
	=====	=====	=====	=====
Basic and diluted net loss per common share.	\$ (0.06)	\$ (0.90)	\$ (0.36)	\$ (1.
	=====	=====	=====	=====
Weighted-average shares used in the calculation of basic and diluted net loss per common share	8,553	9,109	10,016	12,0
	=====	=====	=====	=====

	YEARS ENDED JUNE		
	1998	1999	2000
	----	----	----
OTHER OPERATING DATA:			
EBITDA	\$ (1,096)	\$ (7,904)	\$ (4,537)
Cash flows used in operating activities.....	(5,678)	(4,408)	(8,925)
Cash flows used in investing activities.....	(7,342)	(4,435)	(361)
Cash flows provided by (used in) financing activities.....	29,198	(555)	62,614
Capital expenditures, net of non-cash capital lease expenditures.....	3,678	3,818	6,926
Backlog at end of year.....	43,572	63,746	100,139

17

	JUNE 30,		
	1998	1999	2000
	----	----	----
Balance Sheet Data:			
Cash and cash equivalents.....	\$ 31,342	\$ 11,944	\$ 65,289
Working capital.....	31,461	19,450	74,531
Total assets.....	60,617	61,653	222,754
Long-term liabilities.....	-	-	96,355
Minority interests in consolidated subsidiary Series A Participating Preferred stock of consolidated subsidiary.....	-	-	126
Total stockholders' equity.....	44,014	36,257	5,000
			90,524

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

results of operations with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. 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 and elsewhere in this Annual Report on Form 10-K. 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 salaries. 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 paid to 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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 decline in bookings of contract orders as customers and prospects delay projects. These negative trends are expected to continue to impact our business and prospects for the foreseeable future.

CRITICAL ACCOUNTING POLICIES

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

REVENUE RECOGNITION

We recognize revenue in accordance with Staff Accounting Bulletin No. 101 ("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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

19

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. Revision in cost estimates are reflected in the period in which they become known. In the event an estimate indicates that a loss will be incurred at completion, we record the costs in the period identified.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired primarily from the buyback of the minority interests of NetSat. In the fiscal year-ended June 30, 2002 with our adoption of SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually.

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

ALLOWANCES FOR DOUBTFUL ACCOUNTS

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including our past transaction history with the customer and the credit worthiness of the customer. Management specifically analyzes accounts receivable, historical bad

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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.

20

RESULTS OF OPERATIONS

FISCAL YEARS ENDED JUNE 30, 2001 AND 2002

Revenues from Ground Segment Systems, Networks and Enterprise Solutions. Revenues from ground segment systems, networks and enterprise solutions decreased by \$14.6 million, or 18.6% from \$78.7 million for the fiscal year ended June 30, 2001 to \$64.1 million for the fiscal year ended June 30, 2002. The decrease relates to the decrease in the 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 fiscal year June 30, 2002 to continue to adversely impact us.

Revenues from Data Communications Services. Revenues from data communications services decreased by \$1.7 million, or 7.0% from \$24.2 million for the fiscal year ended June 30, 2001 to \$22.5 million for the fiscal year ended June 30, 2002. The decrease reflects changes in market conditions including the global economic slowdown in the telecommunications industry, pricing pressures in the marketplace and penetration of fiber into areas we have traditionally provided services. We expect the trend

21

in revenues that adversely affected our results of operations for the fiscal year June 30, 2002 to continue to adversely impact us, coupled with the termination of services from our largest Middle East customer in August 2002.

Costs from Ground Segment Systems, Networks and Enterprise Solutions. Costs from ground segment systems, networks and enterprise solutions decreased by \$13.8 million, or 19.5%, from \$70.9 million for the fiscal year ended June 30, 2001 to \$57.1 million for the fiscal year ended June 30, 2002. The decrease is attributable to a lower revenue base. Costs as a percentage of related revenues decreased from 90.0% for the fiscal year ended June 30, 2001 to 89.1%

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

for the fiscal year ended June 30, 2002. The decrease was mainly attributable to a change in contract mix.

Costs from Data Communications Services. Costs from data communications services increased by \$4.0 million, or 17.8%, from \$22.7 million for the fiscal year ended June 30, 2001 to \$26.7 million for the fiscal year ended June 30, 2002. Costs as a percentage of related revenues increased from 93.8% for the fiscal year ended June 30, 2001 to 118.8% for the fiscal year ended June 30, 2002. The increase is primarily due to an increase in transponder costs due to the reclassification of certain satellite transponders leased to operating leases from capital leases based on the renegotiation of certain long-term lease agreements during the fiscal quarter ended June 30, 2001. The corresponding decrease was in interest expense during the fiscal year ended June 30, 2002.

Selling and Marketing. Selling and marketing expenses decreased by \$0.5 million, or 6.9%, from \$7.2 million for the fiscal year ended June 30, 2001 to \$6.7 million for the fiscal year ended June 30, 2002. The decrease was attributable to a reduction in work force in the sales and marketing department of our data communications services business in the fiscal quarter ended June 30, 2001, partially offset by the development of a new direct sales force in the ground segment systems, networks and enterprise solutions business.

Research and Development. Research and development expenses increased by \$0.3 million, or 39.4%, from \$0.9 million for the fiscal year ended June 30, 2001 to \$1.2 million for the fiscal year ended June 30, 2002. The increase was attributable to internal development of new monitoring and control technologies, as well as the initial development of various subsystems for solutions we are providing to a new customer.

General and Administrative. General and administrative expenses increased by \$2.1 million, or 21.9%, from \$9.8 million for the fiscal year ended June 30, 2001 to \$12.0 million for the fiscal year ended June 30, 2002. General and administrative expenses as a percentage of revenues increased from 9.6% for the fiscal year ended June 30, 2001 to 13.8% for the fiscal year ended June 30, 2002. The increase in general and administrative expenses for the fiscal year ended June 30, 2002 primarily resulted from the recording of a \$3.2 million allowance for uncollectible accounts receivable from our largest Middle East customer, an increase in legal expenses, mainly related to settling a patent infringement case and an increase in insurance premiums, partially offset by a reduction in work force, including the reduction of the management team of our data communications services business, which took place in the fiscal quarter ended June 30, 2001.

Asset Impairment Charge. The asset impairment charge of \$2.9 million for the fiscal year ended June 30, 2001, related to three cost basis investments that were written-down in the fiscal quarter ended June 30, 2001. Our management evaluated these investments and believed it would be appropriate to write-down these investments to zero based on their financial uncertainty. The asset impairment charge of \$0.2 million for the fiscal year ended June 30, 2002, related to a write-down of the net carrying value of goodwill relating to the acquisition of a wireless local loop telephone network solutions business during the fiscal year ended June 30, 1999.

Restructuring Charge. The restructuring charge of \$2.5 million (of which \$0.5 was charged to costs from data communications services) for the fiscal year ended June 30, 2001 relates to management's plan to reduce costs and improve the data communications services business operating efficiencies. As a result of this restructuring, we terminated 31 employees including executive management, marketing,

administration and operations support personnel. The major components of the restructuring charge included severance payments to terminated employees of approximately \$0.9 million, fees incurred in connection with the termination of certain leased satellite transponders of approximately \$0.5 million (charged to costs from data communications services), the write-off of certain capitalized costs in the amount of approximately \$0.6 million associated with our terminated financing activities and the write-off of the estimated book value of equipment in the amount of approximately \$0.5 million in connection with our discontinuance of certain product lines. At June 30, 2001, approximately \$0.5 million of the restructuring charge was accrued and included in other accrued expenses. During the fiscal year ended June 30, 2002, the restructuring plan was completed whereby \$0.3 million was charged against the restructuring accrual for charges related to space segment cancellation fees, and \$0.2 million was reversed into income (credit to costs from data communications services) due to the resolution of liabilities for less than originally estimated.

Interest Income. Interest income decreased by \$2.2 million, or 67.8%, from \$3.2 million for the fiscal year ended June 30, 2001 to \$1.0 million for the fiscal year ended June 30, 2002. The decrease is primarily due to significant decline in interest rates coupled with a decrease in cash and cash equivalents due to cash used in operations during the fiscal year ended June 30, 2002.

Interest Expense. Interest expense decreased by \$5.6 million, or 85.5%, from \$6.6 million for the fiscal year ended June 30, 2001 to \$1.0 million for the fiscal year ended June 30, 2002. The decrease was due to the reclassification of certain satellite leased transponders to operating leases from capital leases based on the renegotiation of certain long-term lease agreements during the fiscal quarter ended June 30, 2001. The corresponding increase was in costs from data communications services during the fiscal year ended June 30, 2002.

Gain on Sale of Investment. The gain on sale of investment of \$0.3 million for the fiscal year ended June 30, 2001, related to the sale of our interest in one of our investments, which was accounted for as a cost method investment, during the fiscal quarter ended December 31, 2000.

FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

Revenues from Ground Segment Systems, Networks and Enterprise Solutions. Revenues from ground segment systems, networks and enterprise solutions increased by \$9.1 million, or 13.2% from \$69.6 million for the fiscal year ended June 30, 2000 to \$78.7 million for the fiscal year ended June 30, 2001. The increase reflected an overall increase in the number of shipments and/or completion of contracts as we expanded our businesses.

Revenues from Data Communications Services. Revenues from data communications services increased by \$15.2 million, or 168.9% from \$9.0 million for the fiscal year ended June 30, 2000 to \$24.2 million for the fiscal year ended June 30, 2001 related to additional service revenues derived from new and existing Internet access service customers.

Costs from Ground Segment Systems, Networks and Enterprise Solutions. Costs from ground segment systems, networks and enterprise solutions increased by \$10.3 million, or 16.9%, from \$60.6 million for the fiscal year ended June 30, 2000 to \$70.9 million for the fiscal year ended June 30, 2001. The increase

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

was attributable to the corresponding increase in revenues. Costs as a percentage of revenues increased from 87.1% for the fiscal year ended June 30, 2000 to 90.0% for the fiscal year ended June 30, 2001. The increase was mainly attributable to a change in contract mix.

Costs from Data Communications Services. Costs from data communications services increased by \$12.6 million, or 124.3%, from \$10.1 million for the fiscal year ended June 30, 2000 to \$22.7 million for the fiscal year ended June 30, 2001. The increase related to additional satellite space segment transponder costs and the expansion of the network operations center to support the increasing service base. Costs as a

23

percentage of revenues decreased from 112.4% for the fiscal year ended June 30, 2000 to 93.8% for the fiscal year ended June 30, 2001. The decrease was primarily due to the increase in revenues, which increased transponder utilization.

Selling and Marketing. Selling and marketing expenses increased by \$1.1 million, or 17.9%, from \$6.1 million for the fiscal year ended June 30, 2000 to \$7.2 million for the fiscal year ended June 30, 2001. The increase is attributable to our data communications services business increase in sales and marketing efforts to penetrate into new regions.

Research and Development. Research and development expenses increased by \$0.1 million, or 8.4%, from \$0.8 million for the fiscal year ended June 30, 2000 to \$0.9 million for the fiscal year ended June 30, 2001. The increase was due to our data communications services business research and development efforts for potential new products.

General and Administrative. General and administrative expenses increased by \$1.0 million, or 11.7%, from \$8.8 million for the fiscal year ended June 30, 2000 to \$9.8 million for the fiscal year ended June 30, 2001. General and administrative expenses as a percentage of revenues decreased from 11.1% for the fiscal year ended June 30, 2000 to 9.5% for the fiscal year ended June 30, 2001. The increase in general and administrative expenses for the fiscal year ended June 30, 2001 primarily resulted from an increase in our data communications services business personnel, including expenses related to an increase in its management team.

Asset Impairment Charge. The asset impairment charge of \$2.9 million for the fiscal year ended June 30, 2001, related to three cost basis investments that were written-down in the fiscal fourth quarter ended June 30, 2001. Our management evaluated these investments and believed it would be appropriate to write-down these investments to zero based on their financial uncertainty.

Restructuring Charge. The restructuring charge of \$2.5 million for the fiscal year ended June 30, 2001 related to management's plan to reduce costs and improve the data communications services business operating efficiencies. As a result of this restructuring, we terminated 31 employees including executive management, marketing, administration and operations support personnel. The major components of the restructuring charge included severance payments to terminated employees of approximately \$0.9 million, fees incurred in connection with the termination of certain leased satellite transponders of approximately \$0.5 million (charged to costs from data communications services), the write-off of certain capitalized costs in the amount of approximately \$0.6 million associated with our terminated financing activities and the write-off of the

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

estimated book value of equipment in the amount of approximately \$0.5 million in connection with our discontinuance of certain product lines. At June 30, 2001, approximately \$0.5 million of the restructuring charge was accrued and included in other accrued expenses.

Interest Income. Interest income increased by \$1.5 million, or 84.9%, from \$1.7 million for the fiscal year ended June 30, 2000 to \$3.2 million for the fiscal year ended June 30, 2001. The increase is primarily due to the increase of cash and cash equivalents due to the investment of the net proceeds from our secondary common stock offering completed in April 2000.

Interest Expense. Interest expense increased by \$4.1 million, or 160.9%, from \$2.5 million for the fiscal year ended June 30, 2000 to \$6.6 million for the fiscal year ended June 30, 2001. The increase relates to our data communications services business capital lease obligations entered into during fiscal year 2000 for satellite space segment transponders.

24

Gain on Sale of Consolidated Subsidiary's Common Stock. The gain on sale of consolidated subsidiary's common stock of \$2.4 million for the fiscal year ended June 30, 2000 related to our sale of 1,400,000 shares of common stock of our data communications services business at \$2.50 per share during the fiscal quarter ended December 31, 1999.

Gain on Sale of Investment. The gain on sale of investment of \$0.3 million in the year ended June 30, 2001, relates to the sale of our interest in one of our investments, which is accounted for as a cost method investment, during the fiscal quarter ended December 31, 2000.

QUARTERLY RESULTS

The following tables set forth unaudited consolidated financial information for each of the eight fiscal quarters in the period ended June 30, 2002. We believe that this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in the Annual Report on Form 10-K, and we believe all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results of operations when read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The operating results for any quarter are not necessarily indicative of the operating results for any future period. Certain balances in the prior years have been reclassified to conform to the current year presentation. During the fiscal year ended June 30, 2002, we changed the presentation of our consolidated statements of operations to better represent current industry reporting practices.

25

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

	THREE MONTHS ENDED					
	SEPT. 30,	DEC. 31,	MAR. 31,	JUNE 30,	SEPT. 30,	DEC.
	2000	2000	2001	2001	2001	2001
	(IN THOUSANDS)					
Consolidated Statement of Operations Data:						
Revenues from ground segment systems, networks and enterprise solutions.....	\$ 20,553	\$ 20,714	\$ 18,042	\$ 19,435	\$ 18,034	\$ 16,000
Revenues from data communications services....	5,891	6,110	6,207	5,962	6,186	5,000
Total revenues.....	26,444	26,824	24,249	25,397	24,220	22,000
Costs and operating expenses:						
Costs from ground segment systems, networks and enterprise solutions.....	18,193	18,478	16,086	18,150	16,177	15,000
Costs from data communications services.....	5,640	5,350	5,578	6,093	7,111	6,000
Selling and marketing.....	2,096	1,944	1,680	1,515	1,606	1,000
Research and development.....	210	157	258	225	247	0
General and administrative....	2,747	2,754	2,584	1,737	2,107	2,000
Asset impairment charge.....	-	-	-	2,857	-	0
Restructuring charge.....	-	-	-	1,950	-	0
Total costs and operating expenses.....	28,886	28,683	26,186	32,527	27,248	25,000
Loss from operations.....	(2,442)	(1,859)	(1,937)	(7,130)	(3,028)	(3,000)
Other income (expense):						
Interest income.....	978	868	775	573	423	0
Interest expense.....	(1,951)	(2,077)	(2,306)	(245)	(243)	0
Gain on sale of investment....	-	304	-	-	-	0
Loss before income taxes and minority interests.....	(3,415)	(2,764)	(3,468)	(6,802)	(2,848)	(3,000)
Provision for income taxes....	(415)	(580)	(118)	(487)	-	0
Loss before minority interests	(3,830)	(3,344)	(3,586)	(7,289)	(2,848)	(3,000)
Minority interests in operations of consolidated subsidiary.....	37	(555)	(132)	-	-	0
Net loss	\$ (3,793)	\$ (3,899)	\$ (3,718)	\$ (7,289)	\$ (2,848)	\$ (3,000)
Basic and diluted net loss per common share.....						
	\$ (0.32)	\$ (0.33)	\$ (0.31)	\$ (0.58)	\$ (0.22)	\$ (0.30)
Weighted-average shares used in the calculation of basic and diluted net loss per common share.....						
	11,879	11,890	11,962	12,510	12,718	12,000

We may continue to experience significant quarter-to-quarter fluctuations in our consolidated results of operations, which may result in volatility in the price of our common stock. See "Risk Factors" beginning on page 29.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002, we had working capital of \$43.7 million, including cash and cash equivalents of \$38.7 million, restricted cash of \$0.6 million, net accounts receivable of \$15.0 million, inventories of \$8.6 million and prepaid expenses and other current assets of \$1.4 million, offset by \$12.9 million in accounts payable, \$3.5 million in deferred revenue and \$4.1 million in accrued expenses and other current liabilities.

Net cash used in operating activities during the fiscal year ended June 30, 2002 was \$2.9 million, which primarily related to the net loss of \$17.3 million, a decrease in accounts payable of \$2.4 million relating to the timing of vendor payments and a decrease in deferred revenue of \$2.3 million due to the timing of advance payments from customers on contracts, offset by a decrease in inventories of \$6.7 million due to the completion of certain jobs, a decrease in accounts receivable of \$6.3 million due to collections on certain contract billings and the reduction in revenues, a provision for doubtful accounts of \$4.0 million mainly attributable to a \$3.2 million allowance for uncollectible accounts receivable from one customer and depreciation and amortization expense of \$3.7 million related to the network operation center and one satellite space segment transponder.

Net cash used in investing activities during fiscal year ended June 30, 2002 was \$2.4 million, which relates to the purchase of \$1.7 million in fixed assets primarily for satellite earth station equipment and our network operations center in order to support our service base and \$0.7 million for advances to certain offices.

Net cash used in financing activities during fiscal year ended June 30, 2002 was \$1.0 million, which primarily related to the repurchase of 200,000 shares of stock from an officer.

Effective April 11, 2002, we amended our bank agreement and established a \$5.0 million working capital line of credit. The modified credit facility bears interest at the prime rate (4.75% at June 30, 2002) and is collateralized by a first security interest on most of our assets. The credit facility, which expires on April 10, 2003, contains certain financial covenants, with which we were in compliance at June 30, 2002. As of June 30, 2002, no amounts were outstanding under this credit facility, however, there are outstanding standby letters of credit, bid proposals and performance guarantees of approximately \$2.0 million which are applied against and reduce the amounts available under the working capital line of credit.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through 2008. Future minimum lease payments due on these leases through June 30, 2003 are approximately \$15.5 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

outstanding on that date. On November 15, 2001, we repurchased 2,000 shares at a fair market price of \$4.45 per share on such date. On May 7, 2002, the Company repurchased 200,000 shares at a fair market price of \$5.82 per share from an officer of the Company. The timing, price, quantity and manner of future purchases will be at the discretion of management, depending on market conditions and other factors, subject to compliance with the applicable securities laws.

We expect that our cash and working capital requirements for operating activities will increase as we continue to implement our business strategy. Management anticipates that we will experience negative cash flows due to continued operating losses as a result of a decrease in orders and continued under-utilization of satellite transponder space of NetSat.

NetSat has had, and we expect it will continue to have, significant working capital requirements, which have, and will, put increased pressure on our capital resources. We are currently exploring a number of alternative strategies to reduce the drain on our resources caused by NetSat's losses. These include strategies to better utilize, or reduce the cost of underutilized, transponder capacity, as well as strategies to deal with NetSat's funding needs. We cannot assure you that we will successfully achieve our goal of improving NetSat's working capital requirements.

27

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the ground segment systems, networks, and communications services business, the nature and timing of customer orders, the extent to which we must conduct research and development efforts internally and potential acquisitions of complementary businesses, products or technologies. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements through June 30, 2003. However, we cannot assure you that there will be no change that would consume available resources significantly before that time. For example, the terrorist attacks on the United States in 2001, as well as future events occurring in response to, or in connection with them, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our products and services in the United States and internationally may impact our results of operations. Additional funds may not be available when needed and even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common stock, which could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. If adequate funds are unavailable, we may be required to delay, scale back or eliminate some of our operating activities, including, without limitation, the timing and extent of our marketing programs, the extent and timing of hiring additional personnel and our research and development activities. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

At June 30, 2002, the Company had contractual obligations and commercial commitments as follows (in thousands):

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	Total	Less than 1 year	1-3 years	4-5 years	Af
Capital lease obligation	\$16,871	\$ 1,387	\$ 2,774	\$ 2,774	
Operating leases	76,556	15,489	29,377	25,432	
Total contractual cash obligations	\$93,427	\$16,876	\$32,151	\$28,206	

OTHER COMMERCIAL COMMITMENTS	TOTAL AMOUNTS COMMITTED	AMOUNT OF COMMITMENT EXPIRATION PER PERIOD			
		Less than 1 year	1-3 years	4-5 years	Ov
Standby letters of credit	\$1,370	\$ 683	\$8	-	
Performance guarantees	607	607	-	-	
Total commercial commitments	\$1,977	\$1,290	\$8	\$-	

RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2001, we advanced \$200,000 and \$40,000 to a Vice President and our General Manager, respectively. We received two promissory notes payable on December 31, 2002 for such advances, which bear interest at an annual rate of 5.0% payable quarterly. During the fiscal year ended June 30, 2002, we increased the \$200,000 loan to \$300,000 and amended the promissory note accordingly. At June 30, 2001, principal amounts outstanding under these promissory notes were included in other assets and accrued interest receivable thereon were included in other current assets. At June 30, 2002, principal amounts and accrued interest outstanding under these promissory notes were included in other current assets.

During the fiscal year ended June 30, 2002, we advanced \$300,000 to our Chief Executive Officer. We received a promissory note payable on September 30,

2004 which bears interest at an annual rate of 5.0% payable quarterly, and secured by a stock pledge agreement. On May 7, 2002, our Chief Executive Officer sold 200,000 shares of common stock at a fair market price of \$5.82 per share on such date in connection with our stock repurchase program. We deducted

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

amounts outstanding on the promissory note together with accrued interest thereon from the gross proceeds paid to our Chief Executive Officer in connection with this transaction.

During the fiscal year ended June 30, 2002, we advanced \$300,000 to our President. We received a promissory note payable on September 30, 2004, which bears interest at an annual rate of 5.0% payable quarterly, and secured by a stock pledge agreement. At June 30, 2002, principal amounts outstanding under this promissory note were included in other assets and accrued interest receivable thereon were included in other current assets.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), was issued, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. We do not expect the adoption of this statement to have a material impact on our consolidated financial position, results of operations or liquidity.

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 \$17.3 million during the fiscal year ended June 30, 2002, \$18.7 million during the fiscal year ended June 30, 2001 and \$3.6 million during the fiscal year ended June 30, 2000. As of June 30, 2002, our accumulated deficit was approximately \$54.3 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 communications services. We cannot assure you that we will be able to obtain new customer contracts or generate significant additional revenues from those contracts or any new products or services that we introduce. Even if we become profitable, we may not sustain or increase our profits on a quarterly or annual basis in the future.

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

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

reduction in

29

the capital spending of service providers. We cannot predict the extent to which this softening of demand will continue. Further, increased competition among satellite ground segment systems and networks manufacturers has increased pricing pressures.

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

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

- o general political and economic instability in international markets, as well as a result of the terrorist attacks in the United States on September 11, 2001 and the related outbreak of hostilities, could impede our ability to deliver our products and services to customers and harm our results of operations;
- o changes in regulatory requirements could restrict our ability to deliver services to our international customers;
- o export restrictions, tariffs, licenses and other trade barriers could prevent us from adequately equipping our network facilities;
- o differing technology standards across countries may impede our ability to integrate our products and services across international borders;
- o 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;
- o increased expenses associated with marketing services in foreign countries could effect our ability to compete;
- o relying on local subcontractors for installation of our products and services could adversely impact the quality of our products and services;
- o difficulties in staffing and managing foreign operations could effect our ability to compete;
- o potentially adverse taxes could adversely affect our results of operations;
- o complex foreign laws and treaties could affect our ability to compete; and

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

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

IF WE ARE NOT SUCCESSFUL IN SELLING OUR COMMUNICATIONS SERVICES TO OUR CUSTOMERS FOR WHOM WE HAVE HISTORICALLY PROVIDED SATELLITE GROUND SEGMENT SYSTEMS AND NETWORKS, OUR RESULTS OF OPERATIONS WILL BE HARMED.

30

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

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

NetSat's revenues from data communications services has decreased and the costs of data communications services has increased in the fiscal year ended June 30, 2002. Its 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. We cannot assure you that the transponder space will be efficiently and substantially utilized or that an increase in orders will be realized. NetSat has had, and we expect will continue to have, significant cash requirements, which have and will decrease our cash resources. If NetSat does not efficiently and substantially utilize its transponder space capacity or increase its level of orders, its cash requirements may increase and our results of operations will be harmed.

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

We denominate our foreign sales in U.S. dollars. Consequently, decreases in the value of local currencies relative to the U.S. dollar in the markets in which we operate could adversely affect the demand for our products and services by increasing the price of our products and services in the currencies of the countries in which they are sold. The difficult economic conditions in international markets and the resulting foreign currency devaluations have led to a decrease in demand for our products and services, and the decrease in bookings received by us from these foreign regions has adversely affected our results of operations for the fiscal years ended June 30, 2001 and 2002. We expect that these negative trends will continue to adversely impact our results of operations.

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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

- o delays and/or a decrease in the booking of new contracts;
- o general political and economic conditions in the United States and abroad as a result of the terrorist attacks on September 11, 2001 and the related outbreak of hostilities;
- o the length of time needed to initiate and complete customer contracts;
- o the demand for and acceptance of our existing products and services;
- o the cost of providing our products and services;

31

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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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.

32

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. During the fiscal year ended June 30, 2002, fiber optic communications systems 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 June 30, 2003. However, our future liquidity and capital requirements are difficult to predict, as they depend on numerous factors, including the success of our existing product and service offerings, as well as competing technological and market developments. In particular, NetSat has had significant cost requirements, which are expected to continue in the future. We may need to raise additional funds in order to meet additional working capital requirements and to support additional capital expenditures. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If adequate funds are unavailable, we may be required to delay, reduce or eliminate some of our operating activities, including marketing programs, hiring of additional personnel and research and development programs. If we raise

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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.

WE RELY ON OUR RELATIONSHIPS WITH RESELLERS IN DEVELOPING COUNTRIES WITH EMERGING MARKETS FOR SALES OF OUR PRODUCTS AND SERVICES AND THE LOSS OR FAILURE OF ANY OF THESE RELATIONSHIPS MAY HARM OUR ABILITY TO MARKET AND SELL OUR PRODUCTS AND SERVICES.

We intend to provide our products and services and NetSat's services almost entirely in developing countries where we have little or no market experience. We intend to rely on resellers in those markets to provide their expertise and knowledge of the local regulatory environment in order to make access to customers in emerging markets easier. If we are unable to maintain these relationships, or develop new ones in other emerging markets, our ability to enter into and compete successfully in developing countries would be adversely affected.

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

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

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

33

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

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

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

IF OUR PRODUCTS AND SERVICES ARE NOT ACCEPTED IN DEVELOPING COUNTRIES WITH

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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:

- o the speed at which communications infrastructure, including terrestrial microwave, coaxial cable and fiber optic communications systems, which compete with satellite-based services, is built;
- o the effectiveness of our local value-added resellers and sales representatives in marketing and selling our products and services; and
- o 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, Patrick Flemming, Stephen Yablonski and Donald Woodring. The employment of any of our key personnel could cease at any time subject to prior notice.

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

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

We currently have been granted two patents in the United States, one for remote access to the Internet using satellites, and the other for satellite communication with automatic frequency control, and have two patent applications pending in the United States. 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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 intend to 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

change some of our vendors, we would have to perform additional testing procedures on the service or product supplied by the new vendors, which would prevent or delay the availability of our products and services. Furthermore, our costs could increase significantly if we need to change vendors. If we do not get timely deliveries of quality products and services, or if there are significant increases in the prices of these products or services, it could have a material adverse effect on our business, results of operations and financial condition.

WE RELY ON NETSAT, OUR WHOLLY-OWNED SUBSIDIARY, FOR OUR MAIN SUPPLY OF SPACE SEGMENT ON SATELLITES. IF ITS BUSINESS FAILS OR WE ARE OTHERWISE UNABLE TO CONTINUE TO RELY ON NETSAT FOR THIS SUPPLY, OUR BUSINESS MAY BE HARMED.

We currently depend on NetSat for a majority of our transponder space on satellites. We do not have a long-term agreement in place with NetSat, as most of our needs are filled on a purchase order basis. If NetSat is unable to develop its business or if we are unable to continue to rely on their supply for space segment, then we will have to find alternative suppliers. If we are unable to find another supplier of transponder space or if we are unable to find one on terms favorable to us, then our business may be harmed.

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

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

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

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

OUR STOCK PRICE IS HIGHLY VOLATILE.

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

- o quarterly variations in operating results;
- o announcements of new technology, products or services by us or any of our competitors;
- o acceptance of satellite-based communication services and Internet access services in developing countries with emerging markets;
- o changes in financial estimates or recommendations by security

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

analysts; or

36

- o general market conditions, including, but not limited to, results of the terrorist attacks on September 11, 2001.

In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation of this type is often extremely expensive and diverts management's attention and resources, which could significantly harm our business.

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

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

RISKS RELATED TO GOVERNMENT APPROVALS

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

OPERATIONS AND USE OF SATELLITES

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

FOREIGN OWNERSHIP

We may, in the future, be required to seek FCC approval for foreign ownership if we operate as a common carrier and 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.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

37

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, which 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 including 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 to the Internet of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel and personal privacy 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

38

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.

39

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our objective to managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates for certain purchases from foreign vendors, if applicable. Accordingly, we utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. During the fiscal years ended June 30, 2000, 2001 and 2002, we had no such foreign currency forward contracts.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the Consolidated Financial Statements listed in Item 14(a) of Part IV of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

40

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information in response to this item is incorporated herein by reference to "Election of Directors" and "Executive Officers" in Globecomm Systems Inc.'s Proxy Statement to be filed with the Securities and Exchange Commission (the "SEC"). Information on compliance with section 16(a) of the Exchange Act is incorporated herein by reference to "Compliance with Reporting Requirements" in the Registrant's Proxy Statement to be filed with the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Information in response to this item is incorporated herein by reference to "Executive Compensation and Other Information" in the Registrant's Proxy Statement to be filed with the SEC.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information in response to this item is incorporated herein by reference to "Security Ownership of Certain Beneficial Owners and Management" in the Registrant's Proxy Statement to be filed with the SEC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information in response to this item is incorporated herein by reference to "Certain Transactions" in the Registrant's Proxy Statement to be filed with the SEC.

41

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) (1) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors.....	F-1
Consolidated Balance Sheets as of June 30, 2001 and 2002.....	F-2
Consolidated Statements of Operations for the years ended June 30, 2000, 2001 and 2002.....	F-3
Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2000, 2001 and 2002.....	F-4
Consolidated Statements of Cash Flows for the years ended June 30, 2000, 2001 and 2002.....	F-5
Notes to Consolidated Financial Statements.....	F-6

(2) INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

Schedule II- Valuation and Qualifying Accounts.....	S-1
---	-----

All other schedules for which provision is made in the applicable accounting regulation from the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) LISTING OF EXHIBITS

Exhibit No.

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the "Registration Statement")).
- 10.1 Form of Registration Rights Agreement dated as of February 1997 (incorporated by reference to Exhibit 10.1 of the Registration Statement).
- 10.2 Form of Registration Rights Agreement dated May 30, 1996 (incorporated by reference to Exhibit 10.2 of the Registration Statement).
- 10.3 Form of Registration Rights Agreement dated December 31, 1996, as amended (incorporated by reference to Exhibit 10.3 of the Registration Statement).

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

- 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).
- 42
- 10.5 Investment Agreement dated February 12, 1996 by and between Shiron Satellite Communications (1996) Ltd. and the Registrant (incorporated by reference to Exhibit 10.5 of the Registration Statement).
- 10.6* Stock Purchase Agreement dated as of August 30, 1996 by and between C-Grams Unlimited Inc. and the Registrant (incorporated by reference to Exhibit 10.6 of the Registration Statement).
- 10.7 Memorandum of Understanding dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to Exhibit 10.7 of the Registration Statement).
- 10.8 Stock Purchase Agreement dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by reference to Exhibit 10.8 of the Registration Statement).
- 10.9 Employment Agreement dated as of January 27, 1997 between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registration Statement).
- 10.10 Employment Agreement dated as of January 27, 1997 between the Registrant and Kenneth A. Miller (incorporated by reference to Exhibit 10.10 of the Registration Statement).
- 10.11 Purchase and Sale Agreement, 45 Oser Avenue, Hauppauge, New York, dated December 12, 1996 by and between Eaton Corporation and the Registrant (incorporated by reference to Exhibit 10.13 of the Registration Statement).
- 10.12 1997 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 of the Registration Statement).
- 10.13 Investment Agreement dated August 21, 1998 by and between McKibben Communications LLC and the Registrant (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- 10.14 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the S-8 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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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).

43

- 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).

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

- 21 Subsidiaries of the Registrant (filed herewith).
 - 23 Consent of Independent Auditors (filed herewith).
 - 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
 - 99.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- * Confidential treatment granted for portions of this agreement.

44

(B) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the fiscal quarter ended June 30, 2002.

(C) EXHIBITS

The response to this portion of Item 14 is submitted as a separate section of this report.

(D) FINANCIAL STATEMENT SCHEDULES

The response to this portion of Item 14 is submitted as a separate section of this report.

45

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: 9/30/02

GLOBECOMM SYSTEMS INC.

By: /s/ David E. Hershberg

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

SIGNATURE -----	TITLE -----
/s/ David E. Hershberg ----- David E. Hershberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ Andrew C. Melfi ----- Andrew C. Melfi	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
s/ Kenneth A. Miller ----- Kenneth A. Miller	President and Director
/s/ Stephen C. Yablonski ----- Stephen C. Yablonski	Vice President, General Manager and Director
/s/ Richard E. Caruso ----- Richard E. Caruso	Director
/s/ Benjamin Duhov ----- Benjamin Duhov	Director
/s/ Brian T. Maloney ----- Brian T. Maloney	Director
/s/ A. Robert Towbin ----- A. Robert Towbin	Director
/s/ C.J. Waylan ----- C.J. Waylan	Director

46

CERTIFICATION FOR FORM 10-K
FOR FISCAL YEAR ENDED JUNE 30, 2002

I, David E. Hershberg, certify that:

1. I have reviewed this annual report on Form 10-K of Globecomm Systems Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

Date: September 30, 2002

/s/ David E. Hershberg

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

47

CERTIFICATION FOR FORM 10-K
FOR FISCAL YEAR ENDED JUNE 30, 2002

I, Andrew C. Melfi, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report

Date: September 30, 2002

/s/ Andrew C. Melfi

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

48

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Globecomm Systems Inc.

We have audited the accompanying consolidated balance sheets of Globecomm Systems Inc. (the "Company") as of June 30, 2001 and 2002 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2002. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Globecomm Systems Inc. at June 30, 2001 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other indefinite-lived intangible assets effective July 1, 2001 to conform with the provisions of Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets".

/s/ Ernst & Young LLP

Melville, New York
August 26, 2002

F-1

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

	JUNE 30 2001

ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 45,03
Restricted cash.....	58
Accounts receivable, net.....	25,08
Inventories.....	15,28
Prepaid expenses and other current assets.....	81
Deferred income taxes.....	

Total current assets.....	86,81
Fixed assets, net.....	30,45
Goodwill.....	7,44
Other assets.....	29

Total assets	\$ 124,99
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable.....	\$ 15,31
Deferred revenues.....	5,82
Accrued payroll and related fringe benefits.....	93
Other accrued expenses.....	3,60
Deferred liabilities.....	30
Capital lease obligation.....	43

Total current liabilities.....	26,41
Deferred liabilities, less current portion.....	3,34
Capital lease obligation, less current portion.....	10,10
Commitments and contingencies	
Stockholders' equity:	
Series A Junior Participating, shares authorized, shares issued and outstanding: none in 2001 and 2002.....	
Common stock, \$.001 par value, 22,000,000 shares authorized, shares issued 12,865,591 in 2001 and 12,933,062 in 2002.....	1
Additional paid-in capital.....	123,27
Accumulated deficit.....	(36,99)
Accumulated other comprehensive loss.....	(5)
Treasury stock, at cost, 147,745 shares in 2001 and 349,745 shares in 2002	(1,09)

Total stockholders' equity.....	85,14

Total liabilities and stockholders' equity.....	\$ 124,99
	=====

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

See accompanying notes.

F-2

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

	YEARS ENDED	
	2000	2001
	-----	-----
Revenues from ground segment systems, networks and enterprise solutions.....	\$ 69,584	\$ 78,744
Revenues from data communications services.....	8,987	24,177
Total revenues.....	78,571	102,921
Costs and operating expenses:		
Costs from ground segment systems, networks and enterprise solutions.....	60,634	70,900
Costs from data communications services.....	10,101	22,666
Selling and marketing.....	6,139	7,233
Research and development.....	784	85
General and administrative.....	8,797	9,822
Asset impairment charge.....	-	2,855
Restructuring charge.....	-	1,950
Total costs and operating expenses.....	86,455	116,281
Loss from operations.....	(7,884)	(13,360)
Other income (expense):		
Interest income.....	1,727	3,190
Interest expense.....	(2,522)	(6,570)
Gain on sale of consolidated subsidiary's common stock.....	2,353	-
Gain on sale of investment.....	-	30
Loss before income taxes and minority interests in operations of consolidated subsidiary.....	(6,326)	(16,440)
Provision for income taxes.....	-	(1,600)
Loss before minority interests in operations of consolidated subsidiary.....	(6,326)	(18,040)
Minority interests in operations of consolidated subsidiary.....	2,745	(650)
Net loss.....	\$ (3,581)	\$ (18,690)

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Basic and diluted net loss per common share.....	\$ (0.36)	\$ (1.5)
	=====	=====
Weighted-average shares used in the calculation of basic and diluted net loss per common share.....	10,016	12,06
	=====	=====

See accompanying notes.

F-3

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2000, 2001 AND 2002
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL	ACCUMULATED	ACCUM
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT	OT COMPRE L
	-----	-----	-----	-----	-----
Balance at June 30, 1999.....	9,365	\$ 9	\$ 52,061	\$ (14,717)	\$
Proceeds from secondary offering, net of issuance cost of \$3,903.....	2,000	2	50,095	-	
Proceeds from issuance of consolidated subsidiary's common stock and stock options, net of issuing costs of \$1,002...	-	-	4,012	-	
Minority interests resulting from issuance of consolidated subsidiary's common stock and stock options.....	-	-	(2,197)	-	
Proceeds from exercise of stock options.....	577	1	3,569	-	
Tax benefit from exercise of non-qualified stock options.....	-	-	1,942	-	
Proceeds from exercise of warrants.....	2	-	12	-	
Exercise of stock options in exchange for shares of common stock.....	54	-	291	-	
Issuance of common stock in connection with employee stock purchase plan.....	26	-	252	-	
Options granted to employees and directors..	-	-	24	-	
Options of consolidated subsidiary's common stock granted to consultants.....	-	-	44	-	
Amortization of deferred compensation.....	-	-	-	-	
Comprehensive loss:					
Net loss.....	-	-	-	(3,581)	
Gain from foreign currency translation....	-	-	-	-	
Total comprehensive loss.....	-	-	-	-	
Balance at June 30, 2000.....	12,024	12	110,105	(18,298)	
Proceeds from exercise of stock options.....	69	-	358	-	
Issuance of common stock in connection with employee stock purchase plan.....	55	-	328	-	
Issuance of common stock in connection with acquisition of minority interests in					

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

consolidated subsidiary.....	718	1	6,582	-	
Issuance of warrants in connection with acquisition of minority interests in consolidated subsidiary.....	-	-	5,043	-	
Issuance of options in connection with acquisition of minority interests in consolidated subsidiary.....	-	-	309	-	
Acquisition of minority interests in consolidated subsidiary.....	-	-	907	-	
Forfeiture of consolidated subsidiary's employee stock options.....	-	-	(225)	-	
Minority interests resulting from issuance of consolidated subsidiary's common stock.....	-	-	(131)	-	
Comprehensive loss:					
Net loss.....	-	-	-	(18,699)	
Loss from foreign currency translation....	-	-	-	-	
Loss from available-for-sale securities...	-	-	-	-	
Total comprehensive loss.....	-	-	-	-	
Balance at June 30, 2001.....	12,866	13	123,276	(36,997)	
Proceeds from exercise of stock options....	10	-	38	-	
Issuance of common stock in connection with employee stock purchase plan.....	57	-	247	-	
Purchases of treasury stock (see Note 13)...	-	-	-	-	
Issuance of stock options for services.....	-	-	37	-	
Comprehensive loss:					
Net loss.....	-	-	-	(17,263)	
Gain from foreign currency translation....	-	-	-	-	1
Gain from available-for-sale securities...	-	-	-	-	(1
Total comprehensive loss.....	-	-	-	-	
Balance at June 30, 2002.....	12,933	\$13	\$123,598	\$(54,260)	\$(

	TREASURY STOCK		TOTAL
	SHARES	AMOUNT	STOCKHOLDERS' EQUITY
Balance at June 30, 1999.....	140	\$ (803)	\$ 36,257
Proceeds from secondary offering, net of issuance cost of \$3,903.....	-	-	50,097
Proceeds from issuance of consolidated subsidiary's common stock and stock options, net of issuing costs of \$1,002...	-	-	4,012
Minority interests resulting from issuance of consolidated subsidiary's common stock and stock options.....	-	-	(2,197)
Proceeds from exercise of stock options....	-	-	3,570
Tax benefit from exercise of non-qualified stock options.....	-	-	1,942
Proceeds from exercise of warrants.....	-	-	12
Exercise of stock options in exchange for shares of common stock.....	8	(291)	-
Issuance of common stock in connection			

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

with employee stock purchase plan.....	-	-	252
Options granted to employees and directors..	-	-	24
Options of consolidated subsidiary's common stock granted to consultants.....	-	-	44
Amortization of deferred compensation.....	-	-	75
Comprehensive loss:			
Net loss.....	-	-	(3,581)
Gain from foreign currency translation....	-	-	17

Total comprehensive loss.....	-	-	(3,564)
	-----	-----	-----
Balance at June 30, 2000.....	148	(1,094)	90,524
Proceeds from exercise of stock options....	-	-	358
Issuance of common stock in connection with employee stock purchase plan.....	-	-	328
Issuance of common stock in connection with acquisition of minority interests in consolidated subsidiary.....	-	-	6,583
Issuance of warrants in connection with acquisition of minority interests in consolidated subsidiary.....	-	-	5,043
Issuance of options in connection with acquisition of minority interests in consolidated subsidiary.....	-	-	309
Acquisition of minority interests in consolidated subsidiary.....	-	-	907
Forfeiture of consolidated subsidiary's employee stock options.....	-	-	(7)
Minority interests resulting from issuance of consolidated subsidiary's common stock.....	-	-	(131)
Comprehensive loss:			
Net loss.....	-	-	(18,699)
Loss from foreign currency translation....	-	-	(55)
Loss from available-for-sale securities...	-	-	(19)

Total comprehensive loss.....	-	-	(18,773)
	-----	-----	-----
Balance at June 30, 2001.....	148	(1,094)	85,141
Proceeds from exercise of stock options....	-	-	38
Issuance of common stock in connection with employee stock purchase plan.....	-	-	247
Purchases of treasury stock (see Note 13)...	202	(1,173)	(1,173)
Issuance of stock options for services.....	-	-	37
Comprehensive loss:			
Net loss.....	-	-	(17,263)
Gain from foreign currency translation....	-	-	128
Gain from available-for-sale securities...	-	-	(115)

Total comprehensive loss.....	-	-	(17,250)
	-----	-----	-----
Balance at June 30, 2002.....	350	\$ (2,267)	\$ 67,040
	=====	=====	=====

See accompanying notes.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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

	YEARS END	
	2000	
	-----	-----
OPERATING ACTIVITIES:		
Net loss.....	\$ (3,581)	\$ (
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....	3,347	
Stock compensation expense.....	143	
Provision for doubtful accounts.....	360	
Loss on disposal of fixed assets and other.....	-	
Asset impairment charge.....	-	
Change in deferred liabilities.....	2,047	
Minority interests in operations of consolidated subsidiary.....	(2,745)	
Interest on capital lease obligations.....	186	
Gain on sale of consolidated subsidiary's common stock.....	(2,353)	
Gain on sale of investment.....	-	
Deferred income taxes.....	(1,942)	
Changes in operating assets and liabilities:		
Accounts receivable.....	(4,935)	
Inventories.....	(3,273)	
Prepaid expenses and other current assets.....	(364)	
Other assets.....	(727)	
Accounts payable.....	(2,255)	
Deferred revenues.....	1,996	
Accrued payroll and related fringe benefits.....	(179)	
Other accrued expenses.....	5,350	
	-----	-----
Net cash used in operating activities.....	(8,925)	(
	-----	-----
INVESTING ACTIVITIES:		
Purchases of fixed assets.....	(6,926)	
Purchases of investments.....	-	
Proceeds from sale of investments.....	-	
Purchases of consolidated subsidiary's common stock.....	-	
Purchase of consolidated subsidiary's preferred stock.....	-	
Proceeds from sale of consolidated subsidiary's common stock.....	3,500	
Restricted cash.....	3,065	
Issuance of promissory notes to related parties.....	-	
	-----	-----
Net cash used in investing activities.....	(361)	
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from sale of common stock, net.....	50,097	
Proceeds from sale of consolidated subsidiary's common stock, net	3,398	

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Proceeds from sale of consolidated subsidiary's preferred stock.....	5,000	
Proceeds from exercise of stock options.....	3,570	
Proceeds from exercise of consolidated subsidiary's stock options....	614	
Proceeds from exercise of warrants.....	12	
Proceeds from sale of common stock in connection with employee stock purchase plan.....	252	
Purchases of treasury stock.....	-	
Payments under capital leases.....	(329)	
	-----	-----
Net cash provided by (used in) financing activities.....	62,614	
	-----	-----
Effect of foreign currency translation on cash	17	
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	53,345	(
	-----	-----
Cash and cash equivalents at beginning of year.....	11,944	
	-----	-----
Cash and cash equivalents at end of year.....	\$ 65,289	\$
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$ 769	\$
	=====	=====

See accompanying notes.

F-5

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Globecomm Systems Inc. ("Globecomm") was incorporated in the State of Delaware on August 17, 1994. The Company is an end-to-end satellite communications solutions provider. The Company's core business provides end-to-end value-added satellite-based enterprise communications solutions. This business supplies ground segment systems and networks for satellite-based communications including hardware and software to support a wide range of satellite systems. The Company's wholly-owned subsidiary, NetSat Express, Inc. ("NetSat") provides network services solutions including Internet backbone connectivity, content delivery network applications, back-office capabilities, POP infrastructure and other network management services.

The Company has incurred operating losses since its inception and has an accumulated deficit at June 30, 2002 of approximately \$54,260,000. Such losses have resulted principally from costs related to data communications services, general and administrative and selling and marketing expenses associated with the Company's operations. Management believes that its existing capital resources will be sufficient to meet its working capital needs through June 30, 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, NetSat and Globecom 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 statements 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.

F-6

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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 contracted 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.

F-7

GLOBECOMM SYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 salaries. 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 capitalized satellite transponder leases and network operations

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

expenses which consist primarily of costs associated with the operation of the Network Operation Center (the "NOC"), including teleport services and maintaining a twenty-four hour a day, seven-day a week staff to monitor the operations of the NOC.

Research and Development

Research and development expenditures are expensed as incurred.

Inventories

Inventories, which consist primarily of work-in-progress from costs incurred in connection with specific customer contracts, are stated at the lower of cost (using the first-in, first-out method of accounting) or market value. Progress payments received under long-term contracts are netted against inventories.

Cash Equivalents

The Company classifies highly liquid financial instruments with a maturity, at the purchase date, of three months or less as cash equivalents.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Amortization of assets held under capital leases is calculated using the straight-line method over the estimated useful lives of the assets. Amortization of satellite space segment transponders held under capital leases is calculated based on the straight-line method over the estimated useful life of the satellite transponder. Amortization of leasehold improvements and leased equipment is calculated using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

F-8

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The recorded amounts of the Company's cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of these items. The fair value of the Company's obligation under its capital lease is estimated based on the current rates offered to the Company for obligations of similar terms and maturities. The fair value of obligations under the Company's capital lease was not significantly different than the carrying value at June 30, 2001 and 2002.

Stock-Based Compensation

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123").

Goodwill and Other Intangible Assets

Goodwill represents excess of the purchase price over the fair value of the net assets acquired. Beginning in fiscal 2002 with the adoption of 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. Prior to fiscal 2002, goodwill and such other intangibles were amortized using the straight-line method over periods ranging from five-to-ten years (see Note 7).

Long-Lived Assets

For other than goodwill and indefinite life intangibles, when impairment indicators are present, the Company reviews the carrying value of its assets in determining the ultimate recoverability of their unamortized values using future undiscounted cash flows expected to be generated by the assets. If such assets are considered impaired, the impairment recognized is measured by the amount by which the carrying amount of the asset exceeds the future discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

The Company evaluates the periods of amortization continually in determining whether later events and circumstances warrant revised estimates of useful lives. If estimates are changed, the unamortized cost will be allocated to the increased or decreased number of remaining periods in the revised lives.

F-9

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

In August 2001, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), was issued, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ("SFAS No. 121"). SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company does not expect the adoption of this statement to have a material impact on the Company's consolidated financial position, results of operations or liquidity.

Reclassifications

Certain balances in the prior years have been reclassified to conform to the current year presentation. During fiscal 2002, the Company changed the presentation of its consolidated statement of operations to better represent current industry reporting practices.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

3. ACCOUNTS RECEIVABLE

At June 30, 2001, the Company had billed and unbilled accounts receivable balances outstanding for contracts in progress of \$19,543,000 and \$795,000, respectively, and had billed and unbilled accounts receivable balances outstanding for completed contracts of \$4,751,000 and \$0, respectively.

At June 30, 2002, the Company had billed and unbilled accounts receivable balances outstanding for contracts in progress of \$11,350,000 and \$408,000, respectively, and billed and unbilled accounts receivable balances outstanding for completed contracts of \$3,241,000 and \$0, respectively.

Accounts receivable include amounts billed but not paid by customers pursuant to retainage provisions in connection with ground segment systems, networks and enterprise solutions contracts. At June 30, 2001 and 2002, there was \$5,862,000 and \$448,000, respectively, billed but not paid by customers under retainage provisions in connection with long-term contracts. Such balances are included in accounts receivable in the accompanying consolidated balance sheets. Based on the Company's experience with similar contracts in recent years, billed receivables relating to long-term contracts are expected to be collected in one year.

Unbilled amounts relating to long-term contracts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones, or completion of the contract. At June 30, 2001 and 2002, there were no unbilled amounts relating to long-term contracts included in the accompanying consolidated balance sheets.

4. INVENTORIES

Inventories consist of the following:

	JUNE 30, 2001
	----- (IN THOU)
Raw materials and component parts.....	\$ 608
Work-in-progress.....	14,677

	\$ 15,285
	=====

At June 30, 2001 and 2002, there was no progress payments to net against inventories under long-term contracts.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FIXED ASSETS

Fixed assets consist of the following:

	JUNE 30, 2001	JUNE 30, 2002

(IN THOUSANDS)		
Land.....	\$ 1,750	\$ 1,750
Building and improvements.....	5,914	5,914
Computer equipment.....	2,740	2,914
Machinery and equipment.....	2,414	2,414
Network Operations Center.....	5,137	5,614
Satellite earth station equipment.....	8,554	9,314
Furniture and fixtures.....	1,189	1,314
Leasehold improvements.....	29	29
Satellite transponders.....	11,256	11,256
	-----	-----
	38,983	40,614
Less accumulated depreciation and amortization.....	8,527	12,114
	-----	-----
	\$ 30,456	\$ 28,499
	=====	=====

6. INVESTMENTS

The Company has various investments in strategic alliance companies that were accounted for under the cost method of accounting, as the Company does not have the ability to exercise significant influence and there are no readily determinable market values for such investments. The Company periodically evaluates the carrying value of these investments to determine that they are recorded at the lower of cost or estimated net realizable value. Due to the significant decline in the public equity markets and the financial uncertainty of such investments, during fiscal 2001 the Company's management evaluated these investments and determined it would be appropriate to write-down these investments to net realizable value. Accordingly, during the fourth quarter of fiscal 2001, the Company recorded an asset impairment charge of approximately \$2,857,000, which is included in costs and operating expenses in the accompanying consolidated statement of operations for the fiscal year ended June 30, 2001, and reduced the carrying value of these investments to zero.

During December 2000, the Company sold its interest in one of its investments, which was being accounted for under the cost method of accounting, and recorded a gain on sale of investments of approximately \$304,000 during fiscal 2001. Such gain was included in the consolidated statement of operations for the fiscal year ended June 30, 2001.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

GLOBECOMM SYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. GOODWILL

On July 1, 2001, the Company adopted the new rules on accounting for goodwill and other intangible assets. The Company completed its annual goodwill impairment tests during the fourth quarter of fiscal 2002 for both its ground segment systems, networks and enterprise solutions and data communications services reporting units. Based upon the estimated fair market values, the Company recognized an impairment charge of approximately \$237,000 in connection with its ground segment systems, networks and enterprise solutions reporting unit, representing the net carrying value of goodwill relating to the acquisition of a wireless local loop telephone network solutions business in fiscal 1999. This charge is included in costs and operating expenses in the accompanying consolidated statement of operations for the fiscal year ended June 30, 2002.

The net carrying value of goodwill is approximately \$7,441,000 and \$7,204,000, respectively, at June 30, 2001 and 2002 which primarily relates to the data communications solutions reporting unit.

Had the Company been accounting for its goodwill under SFAS No. 142 for all periods presented, the Company's net loss and basic and diluted net loss per common share would have been as follows:

	YEARS ENDED JUNE 30,		
	2000	2001	2002
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Reported net loss.....	\$ (3,581)	\$ (18,699)	\$ (17,200)
Add back goodwill amortization, net of tax.....	160	291	
Adjusted net loss.....	\$ (3,421)	\$ (18,408)	\$ (17,200)
Basic and diluted net loss per common share:			
As reported	\$ (0.36)	\$ (1.55)	\$ (1.55)
Goodwill amortization.....	0.02	0.02	
Adjusted basic and diluted net loss per common share.....	\$ (0.34)	\$ (1.53)	\$ (1.53)

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

GLOBECOMM SYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. COMMON STOCK

Sale of Common Stock

On April 4, 2000, the Company completed a secondary public offering of 2,000,000 shares of its common stock for an aggregate offering price of \$54,000,000. The Company incurred total expenses in the offering of approximately \$3,903,000 of which approximately \$3,240,000 represented underwriting discounts and commissions and approximately \$663,000 represented other expenses. The net proceeds to the Company after deducting the total expenses were approximately \$50,097,000.

Stock Issued to Consultants

During November 1996, the Company issued a ten-year warrant to five consultants for services to purchase an aggregate of 64,125 shares of common stock at a price per share of \$8.07, equal to the fair market value of the shares at the date of issuance. At June 30, 2002, warrants to purchase 55,825 shares of the Company's common stock noted above are outstanding and exercisable.

Treasury Stock

During March 2000, an employee of the Company surrendered 8,107 shares of the Company's common stock, with a fair market value at time of surrender of \$35.88 per share, in exchange for the exercise of 54,338 stock options with exercise prices ranging from \$4.68 to \$8.07. Accordingly, the Company recorded 8,107 shares in treasury stock, with a fair value of approximately \$291,000, and issued 46,231 shares of the Company's common stock to the employee.

On November 7, 2001, the Company's Board of Directors authorized a stock repurchase program whereby the Company can repurchase up to \$2.0 million of the Company's outstanding stock, representing approximately 3.7% of the total shares outstanding on that date. On November 15, 2001, the Company repurchased 2,000 shares at a fair market price of \$4.45 per share on such date. On May 7, 2002, the Company repurchased 200,000 shares at a fair market price of \$5.82 per share on such date from the Company's Chief Executive Officer (see Note 13). The repurchase program allows for the purchase to be made intermittently, through open market and privately negotiated transactions. Timing, price, quantity and manner of purchases are at the discretion of the Company's management, depending on market conditions and other factors, subject to compliance with the applicable securities laws.

9. NETSAT'S EQUITY TRANSACTIONS AND RESTRUCTURING

On August 11, 1999, NetSat issued and sold 2,000,000 shares of its Series A Participating Preferred Stock ("Preferred Stock") for \$2.50 per share and 2,000,000 shares of its common stock for \$2.50 per share in a private offering yielding net proceeds of approximately \$6,963,000, net of offering costs of approximately \$937,000. The Company's common stock ownership percentage in NetSat was reduced from approximately 95% to approximately 81% following the issuance and sale of the common stock. Accordingly, the Company recorded a credit to stockholders' equity of approximately \$1,700,000 during fiscal 2000 reflecting the increase in its share of the net equity of NetSat as a result of the common stock offering.

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

9. NETSAT'S EQUITY TRANSACTIONS AND RESTRUCTURING (CONTINUED)

During October 1999, the Company and NetSat entered into a common stock purchase agreement with an investor to purchase 2,000,000 shares of NetSat's common stock for \$2.50 per share, of which 1,400,000 shares were purchased directly from the Company and 600,000 shares were issued and sold directly by NetSat, yielding net proceeds of approximately \$4,935,000, net of offering costs of \$65,000. As a result, the Company recorded a gain of approximately \$2,353,000 from the sale of its 1,400,000 shares of NetSat's common stock during fiscal 2000. The Company's common stock ownership percentage in NetSat was reduced from approximately 81% to approximately 69% following the issuance and sale of the NetSat common stock. Accordingly, the Company recorded a credit to stockholders' equity of approximately \$830,000 during fiscal 2000 reflecting the increase in its share of the net equity of NetSat as a result of the common stock offering.

During April 2001, in connection with management's plan to reduce costs and to improve NetSat's operating efficiencies, the Company recorded a restructuring charge of approximately \$2,490,000 (of which \$540,000 was charged to costs from data communications services) during fiscal 2001. The restructuring was primarily associated with the discontinuance of certain NetSat product lines to enhance the Company's strategic redeployment of its consolidated operating activities, enabling the Company to offer its customers end-to-end satellite communications solutions while integrating operations and reducing costs. As a result of this restructuring, the Company terminated 31 employees including executive management, marketing, administration and operations support personnel. The major components of the restructuring charge included severance payments to terminated NetSat employees of approximately \$850,000, fees incurred in connection with the termination of certain leased satellite transponders of approximately \$540,000 (charged to costs from data communications services), the write-off of certain capitalized costs in the amount of approximately \$620,000 associated with NetSat's terminated financing activities and the write-off of the estimated book value of equipment in the amount of approximately \$480,000 in connection with NetSat's discontinuance of certain product lines. At June 30, 2001, approximately \$500,000 of the restructuring charge was accrued and included in other accrued expenses in the accompanying consolidated balance sheet. During fiscal 2002, the restructuring plan was completed whereby \$250,000 was charged against the restructuring accrual for charges relating to space segment cancellation fees, and \$250,000 was reversed into income (credited to costs from data communications services) due to the resolution of liabilities for less than originally estimated.

In connection with the Company's restructuring plan, the Company also acquired the following minority interests in NetSat:

- a) On March 30, 2001, the Company acquired 2,000,000 shares of NetSat's Preferred Stock and 333,334 shares of NetSat's common stock from a minority stockholder for approximately \$581,000 in cash, the issuance of 233,334 shares of the Company's common stock and the issuance of a five-year warrant to purchase 262,501 shares of the Company's common stock.
- b) During April and May 2001, the Company acquired 4,845,704 shares of NetSat's common stock from minority stockholders for approximately

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

\$1,212,000 in cash, the issuance of 484,570 shares of the Company's common stock and the issuance of warrants to purchase 545,142 shares of the Company's common stock.

- c) In connection with the acquisition of the minority interests of NetSat, on May 25, 2001, the Company exchanged all of the current employees outstanding NetSat common stock options for an equal value of the Company's common stock options. As a result, 1,188,808 of NetSat common stock options were exchanged for 50,588 common stock options of the Company.

F-14

GLOBECOMM SYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. NETSAT'S EQUITY TRANSACTIONS AND RESTRUCTURING (CONTINUED)

In connection with these transactions, the Company wholly owns NetSat and, accordingly, recorded goodwill of approximately \$7,001,000 during fiscal 2001, which represents the excess of the value of the Company's securities issued over the recorded minority interests at the time of the transactions. In accordance with the provisions of SFAS No. 142, effective July 1, 2001, the Company ceased amortizing the goodwill associated with these transactions, which at such time had a remaining balance of \$6,913,000 and was being amortized over ten years. Such goodwill was tested for impairment upon the adoption of SFAS No. 142 as of July 1, 2001 and again in connection with the annual asset impairment test during the fourth quarter of fiscal 2002 whereby no impairment was identified.

10. STOCK OPTION AND STOCK PURCHASE PLANS

On February 26, 1997, the Company's Board of Directors authorized, and the stockholders subsequently approved, the 1997 Stock Incentive Plan ("1997 Plan"), which authorized the granting to employees, directors and consultants of the Company options to purchase an aggregate of 2,280,000 shares of the Company's common stock. In November 2000 and 2001, the Company's stockholders approved amendments to the 1997 Plan whereby the number of shares authorized for issuance under the 1997 Plan increased by 800,000 shares in fiscal 2001 and 2002.

Options granted under the 1997 Plan may be either incentive or non-qualified stock options. The exercise price of an option shall be determined by the Company's Board of Directors or compensation committee of the board at the time of grant, however, in the case of an incentive stock option the exercise price may not be less than 100% of the fair market value of such stock at the time of the grant, or less than 110% of such fair market value in the case of options granted to a 10% owner of the Company's stock.

Employee options generally vest annually in equal installments over a four-year period and expire on the tenth anniversary of the date of grant. Director options generally vest annually in equal installments over a three-year period commencing on the date of grant and expire the earlier of ten years from the date of grant or one year from concluding service as a director of the Company.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

The 1997 Plan provides for an automatic increase to the number of options authorized for grant by an amount equal to 1% of the shares of common stock outstanding on the last trading day of each calendar year. During fiscal 2000, 2001 and 2002, the Company increased the number of options authorized for grant under the 1997 Plan pursuant to the automatic 1% provision by 95,623, 119,505 and 127,529, respectively. At June 30, 2002, the remaining options available for grant under the 1997 Plan was 558,382.

On September 23, 1998, the Board of Directors adopted, and the stockholders subsequently approved, the 1999 Employee Stock Purchase Plan ("1999 Plan"). Pursuant to the 1999 Plan, 400,000 shares of the Company's common stock will be reserved for issuance. The 1999 Plan is intended to provide eligible employees of the Company, and its participating affiliates, the opportunity to acquire an interest in the Company at 85% of fair market value at date of issuance through participation in the payroll-deduction based employee stock purchase plan. During the years ended June 30, 2000, 2001 and 2002, the Company issued 25,733, 54,905 and 56,821 shares of its common stock to participating employees in connection with the 1999 Plan. At June 30, 2002, the remaining shares available for issuance under the 1999 Plan was 244,012.

F-15

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

10. STOCK OPTION AND STOCK PURCHASE PLANS (CONTINUED)

The following table summarizes activity in the Company's stock option plan (In thousands, except per share amounts):

	YEARS ENDED JUNE 30,			
	2000		2001	
	SHARES UNDER OPTION -----	WEIGHTED- AVERAGE EXERCISE PRICE -----	SHARES UNDER OPTION -----	WEIGHTED- AVERAGE EXERCISE PRICE -----
Balance, beginning of year....	2,007	\$ 7.32	1,578	\$ 10.10
Grants.....	353	18.54	944	7.78
Exercised.....	(631)	6.11	(69)	5.22
Canceled.....	(151)	9.58	(71)	11.24
	-----		-----	
Balance, end of year.....	1,578	10.10	2,382	9.28
	=====		=====	
Exercisable, end of year.....	863	\$ 7.19	1,170	\$ 8.61
	=====	=====	=====	=====
Weighted-average fair value of options granted during				

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

the year..... \$ 12.38 \$ 5.21
 =====

As a result of stock options granted during fiscal 1997, the Company recorded stock compensation expense of approximately \$24,000 during the year ended June 30, 2000, based on the difference between the fair market value of the shares and the option exercise price at the date of grant. As of June 30, 2000, there was no additional stock compensation expense to be recorded relating to these grants.

The following table summarizes information about stock options outstanding at June 30, 2002 (In thousands, except per share amounts):

OPTIONS OUTSTANDING					OPTIONS E
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	
\$3.51 - \$5.06.....	935	6.9	\$ 4.52	398	
\$5.31 - \$7.90.....	946	8.5	\$ 6.72	252	
\$8.07 - \$11.75.....	690	6.2	\$ 9.35	519	
\$12.75 - \$18.88.....	153	5.8	\$14.82	135	
\$21.00 - \$28.00.....	190	7.4	\$22.12	97	
	-----			-----	
	2,914	7.2	\$ 8.07	1,401	
	=====			=====	

F-16

GLOBECOMM SYSTEMS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

10. STOCK OPTION AND STOCK PURCHASE PLANS (CONTINUED)

The Company has reserved approximately 4,336,000 shares of its common stock for issuance upon exercise of all available and outstanding options and warrants at June 30, 2002.

In connection with the acquisition of the minority interests of NetSat in fiscal 2001, the Company cancelled the NetSat 1999 Stock Incentive Plan during the fourth quarter of fiscal 2001.

Fair Value Disclosures

Pro-forma information regarding net loss and net loss per common share is required by SFAS No. 123, which also requires that the information be

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

determined as if the Company has accounted for its stock options granted subsequent to July 1, 1995 under the fair value method of that Statement. The fair value of options granted under the Company's 1997 Plan was estimated at date of grant using a Black-Scholes option pricing model with the following assumptions for the years ended June 30, 2000, 2001 and 2002: risk-free interest rate of 6.1% (2000), 5.4% (2001) and 4.2% (2002), volatility factor of the expected market price of the Company's common stock of .92 (2000), .81 (2001), and .75 (2002), a weighted-average expected life of the option of five years and no dividend yields.

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:

	YEARS ENDED JUNE 30	
	2000	2001
	----	----
Pro-forma net loss (In thousands).....	\$ (5,445)	\$ (21,515)
	=====	=====
Basic and diluted pro-forma net loss per common share.....	\$ (.54)	\$ (1.78)
	=====	=====

11. BASIC AND DILUTED NET LOSS PER COMMON SHARE

The Company computes net loss per 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 shares outstanding for the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of preferred stock (using an if-converted method) and incremental shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Incremental common equivalent shares are excluded from the calculation of diluted net loss per share as their effect is anti-dilutive. Diluted net loss per share for the years ended June 30, 2000, 2001 and 2002, excludes the effect of approximately 951,000, 415,000 and 172,000 stock options, respectively, and approximately 32,000 and 10,000 warrants in 2000 and 2001, respectively, as their effect would have been anti-dilutive.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

GLOBECOMM SYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. PENSION PLAN

The Company maintains a 401(k) plan, which covers substantially all employees of the Company. Participants may elect to contribute from 1% to 100% of their pre-tax compensation, subject to elective deferral limitations under Section 403 of the Internal Revenue Code. Participant contributions up to 4% of pre-tax compensation were fully matched by the Company during the years ended June 30, 2000, 2001, and 2002. The plan also provides for discretionary contributions by the Company. The Company contributed approximately \$259,000, \$539,000 and \$470,000 to the 401(k) plan during the years ended June 30, 2000, 2001, and 2002, respectively. There were no discretionary contributions made by the Company during the years ended June 30, 2000, 2001, and 2002.

13. RELATED PARTY TRANSACTIONS

During fiscal 2001, the Company advanced \$200,000 and \$40,000 to two officers of the Company. The Company received two promissory notes payable on December 31, 2002 for such advances, which bear interest at an annual rate of 5.0% payable quarterly. During fiscal 2002, the Company increased the \$200,000 loan to \$300,000 and amended the promissory note accordingly. At June 30, 2001, principal amounts outstanding under these promissory notes are included in other assets and accrued interest receivable is included in other current assets in the accompanying consolidated balance sheet. At June 30, 2002, principal amounts and accrued interest outstanding under these promissory notes are included in other current assets in the accompanying consolidated balance sheet.

During fiscal 2002, the Company advanced \$300,000 to an officer of the Company. The Company received a promissory note payable on September 30, 2004, which bears interest at an annual rate of 5.0% payable quarterly, and secured by a stock pledge agreement. On May 7, 2002, the officer sold 200,000 shares of the Company's common stock at a fair market price of \$5.82 per share on such date to the Company in connection with its stock repurchase program. The Company deducted amounts outstanding on the promissory note together with accrued interest thereon from the gross proceeds paid to the officer in connection with this transaction.

During fiscal 2002, the Company advanced \$300,000 to an officer of the Company. The Company received a promissory note payable on September 30, 2004, which bears interest at an annual rate of 5.0% payable quarterly, and secured by a stock pledge agreement. At June 30, 2002, principal amounts outstanding under this promissory note are included in other assets and accrued interest receivable thereon is included in other current assets in the accompanying consolidated balance sheet.

14. INCOME TAXES

The Company computes income taxes using the liability method. Accordingly, deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to the differences between the carrying amount of the assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities are determined by using enacted tax laws and rates in effect when the differences are expected to reverse. Net deferred tax assets are recorded when it is more likely than not that such tax benefits will be realized.

GLOBECOMM SYSTEMS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

14. INCOME TAXES (CONTINUED)

The income tax provision (benefit) for the years ended June 30, 2000, 2001 and 2002 calculated under the provisions of SFAS No.109, Accounting for Income Taxes, are as follows:

	YEARS ENDED	
	2000	2001
	-----	-----
		(IN THOUSANDS)
Current:		
Federal.....	\$ 1,635	\$ 1,635
State and local.....	307	307
Foreign	-	-
	-----	-----
	1,942	1,942
Deferred, net of valuation allowance.....	(1,942)	(1,942)
	-----	-----
	\$ -	\$ -
	=====	=====

During fiscal 2001 and 2002, the Company recorded approximately \$342,000 and \$372,000 of state investment tax credits. During fiscal 2002, approximately \$75,000 of the tax benefit was recorded as an offset to state and local capital taxes, approximately \$138,000 was recorded as an offset to the foreign income tax provision recorded by Globecomm Systems Europe Limited and the remaining \$159,000 was recorded as a reduction in general and administrative expenses.

In the fourth quarter of fiscal 2001, the Company acquired the remaining minority interests in NetSat from certain minority shareholders. Accordingly, for federal income tax purposes the Company and NetSat will file a consolidated income tax return.

Significant components of the Company's deferred tax assets (liability) are as follows:

	JUNE 30, 2001

	(IN THOUSANDS)
Deferred tax assets:	
Net operating loss carryforwards.....	\$ 14,772

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Projects in progress.....	175
Accruals and reserves.....	1,659
Write-down of investments.....	1,280
State investment tax credit carryforwards.....	-

	17,886
Valuation allowance for deferred tax assets.....	(17,401)

	485
Deferred tax liability:	
Depreciation and amortization.....	(485)

Net deferred tax assets.....	\$ -
	=====

F-19

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

14. INCOME TAXES (CONTINUED)

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 deferred tax assets is dependent upon the generation of future taxable income prior to the expiration of any net operating loss carryforwards. Due to the uncertainty regarding the Company's ability to utilize its net operating losses in the future, the Company has 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.

For the years ended June 30, 2000, 2001 and 2002, the valuation allowance increased approximately \$3,282,000, \$7,743,000 and \$5,756,000, respectively. Approximately \$2,046,000 of the remaining valuation allowance, if recognized, will be allocated directly to stockholders' equity relating to non-qualified dispositions of stock option exercises.

The Company has available net operating loss carryforwards of approximately \$53,691,000 (\$17,339,000 and \$36,352,000 for the Company and NetSat, respectively), which are due to expire through 2022. Utilization of the NetSat net operating loss carryforwards may be subject to an annual limitation pursuant to the ownership change limitations provided by the Internal Revenue Code and similar state provisions.

The reconciliations of tax provision (benefit) computed at the U.S. federal statutory tax rates to the effective income tax rates on pre-tax loss are as follows:

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

	YEARS ENDED JUNE 30,	
	2000	2001
Tax at U.S. Federal statutory rate.....	(34) %	(34) %
Expenses not deductible for income tax purposes	6	-
Losses for which no tax benefit was received.....	28	45
State taxes.....	-	(1)
	- %	10 %

15. 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 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 as of and for the years ended June 30, 2000, 2001 and 2002:

F-20

GLOBECOMM SYSTEMS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

15. SEGMENT INFORMATION (CONTINUED)

	YEARS ENDED	
	2000	2001
		(IN THOUSANDS)
Revenues:		
Ground segment systems, networks and enterprise solutions...	\$ 69,584	\$ 78,74
Data communications services.....	8,987	24,17
Total revenues.....	\$ 78,571	\$ 102,91

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

	=====	=====
Loss from operations:		
Ground segment systems, networks and enterprise solutions.	\$ (137)	\$ (4,86
Data communications services.....	(7,193)	(8,53
Interest income.....	1,727	3,19
Interest expense.....	(2,522)	(6,57
Gain on sale of consolidated subsidiary's common stock.....	2,353	
Gain on sale of investment.....	-	30
Intercompany eliminations.....	(554)	3
	-----	-----
Loss before income taxes and minority interests in operations of consolidated subsidiary.....	\$ (6,326)	\$ (16,44
	=====	=====
Depreciation and amortization:		
Ground segment systems, networks and enterprise solutions.	\$ 1,370	\$ 1,69
Data communications services.....	1,977	5,54
Intercompany eliminations.....	-	(
	-----	-----
Total depreciation and amortization.....	\$ 3,347	\$ 7,22
	=====	=====
Expenditures for long-lived assets:		
Ground segment systems, networks and enterprise solutions.	\$ 2,482	\$ 2,05
Data communications services.....	101,249	3,42
Intercompany eliminations.....	(444)	(13
	-----	-----
Total expenditures for long-lived assets.....	\$ 103,287	\$ 5,35
	=====	=====
	JUNE 30,	JUNE 30,
	2000	2001
	----	----
		(IN THOUSAND
Assets:		
Ground segment systems, networks and enterprise solutions.	\$ 125,106	\$ 136,10
Data communications services.....	109,624	21,98
Intercompany eliminations.....	(11,976)	(33,08
	-----	-----
Total assets.....	\$ 222,754	\$ 124,99
	=====	=====

F-21

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

16. SIGNIFICANT CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

The Company designs, assembles and installs satellite ground segment systems, networks and enterprise solutions for customers in diversified geographic locations. Concentration of credit risk with respect to accounts receivable is limited due to the limited number of customers and that a substantial portion of accounts receivable are related to balances owed by major satellite communication companies. The timing of cash realization is determined based upon the contract or service agreements with the customers. The Company performs ongoing credit evaluations of its customers' financial condition and in most cases requires a letter of credit or cash in advance for foreign customers. Allowances related to accounts receivable at June 30, 2000, 2001 and 2002, are approximately \$467,000, \$1,065,000 and \$4,683,000, respectively.

Two major customers accounted for approximately 27% (16% and 11%) of the Company's consolidated revenues for the year ended June 30, 2000. One major customer accounted for approximately 11% of the Company's consolidated revenues for the years ended June 30, 2001 and 2002.

Revenues earned from ground segment systems, networks and enterprise solutions are attributed to the geographic location in which the equipment is shipped. Revenues earned from data communications services are attributed to the geographic location in which the services are being provided. Revenues from foreign sales as a percentage of total consolidated revenues are as follows:

	YEARS ENDED JUNE 30,	
	2000	2001
	----	----
Africa.....	5 %	2 %
South America.....	2 %	8 %
Asia.....	12 %	10 %
Europe (15% in the UK in 2002).....	24 %	21 %
Middle East.....	10 %	13 %
Australia.....	2 %	2 %
	-----	-----
	55 %	56 %
	=====	=====

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The Company places its cash and cash equivalents with high quality financial institutions. Substantially all cash and cash equivalents are held in three financial institutions at June 30, 2001 and 2002, respectively. Cash equivalents are comprised of short-term debt instruments and certificates of deposit of direct or guaranteed obligations of the United States, which are held to maturity and approximate fair market value. At times, cash may be in excess of Federal Deposit Insurance Company insurance limits.

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. COMMITMENTS AND CONTINGENCIES

Line of Credit

Effective April 11, 2002, the Company amended its bank agreement and established a \$5,000,000 working capital line of credit. The modified credit facility bears interest at the prime rate (4.75% at June 30, 2002) and is collateralized by a first security interest on most of the Company's assets. The credit facility, which expires on April 10, 2003, contains certain financial covenants, with which the Company was in compliance at June 30, 2002. As of June 30, 2002, no amounts are outstanding under this credit facility, however, there are outstanding standby letters of credit, bid proposals and performance guarantees of approximately \$1,977,000 which are applied against and reduce the amounts available under the working capital line of credit.

Letters of Credit

The Company utilizes standby letters of credit to secure certain bid proposals, performance guarantees, and service agreements with third party vendors in the normal course of business. As of June 30, 2001 and 2002, the Company had standby letters of credit, bid proposals and performance guarantees outstanding of approximately \$1,850,000 and \$1,977,000, respectively, which were secured by the Company's working capital line of credit. The Company provides cash collateral for certain letters of credit. As of June 30, 2001 and 2002, the Company had no cash collateral related to bid proposals, and had approximately \$588,000 of cash collateral related to performance guarantees. These amounts are included in restricted cash in the accompanying consolidated balance sheets.

Lease Commitments

The Company currently leases satellite space segment services, office space, teleport services and other equipment under a capital and various operating leases, which expire in various years through 2014. As leases expire, it can be expected that in the normal course of business they will be renewed or replaced. Most lease agreements contain renewal options.

During the year ended June 30, 2000, NetSat signed a 15-year and a 14-year capital lease for certain satellite space segment transponders. On April 1, 2001, the Company renegotiated the 15-year satellite space segment transponder lease which changed the terms and economics of the agreement and resulted in a change in accounting for such lease from capital to operating. Accordingly, the change in accounting reduced the Company's capital lease obligations by approximately \$84,261,000 with a corresponding reduction in net fixed assets of approximately \$80,620,000, resulting in a deferred liability of approximately \$3,641,000, which is being amortized into income over the remaining term of the lease. During the year ended June 30, 2002, NetSat amortized \$300,000 of the deferred liability into income which is included as a credit to costs from data communications services, resulting in a balance of approximately \$3,341,000 in deferred liabilities in the accompanying consolidated balance sheets at June 30, 2002.

During the fourth quarter of fiscal 2002, NetSat amended a satellite space segment transponder lease to reduce the short-term cash commitment under such agreement in exchange for a twelve-month extension of the lease term. As a result of this modification, the Company will record the remaining lease commitment on a straight-line basis over the remaining term of the transponder lease. Accordingly, during 2002, the Company recorded a deferred liability of \$319,000, to reflect the straight-lining of such lease payments. Such amount is

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

included in deferred liabilities in the accompanying consolidated balance sheets at June 30, 2002.

F-23

GLOBECOMM SYSTEMS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

At June 30, 2002, future minimum lease payments under the non-cancelable capital lease agreement is as follows (in thousands):

2003.....	\$	1,387
2004.....		1,387
2005.....		1,387
2006.....		1,387
2007.....		1,387
Thereafter.....		9,936

Total minimum lease payments.....	\$	16,871
Less amount representing interest.....		(6,766)

Present value of minimum lease payments, net.....	\$	10,105
		=====

The satellite space segment transponders under the capital lease are included in fixed assets with a capitalized cost of approximately \$11,256,000 and accumulated amortization of approximately \$1,158,000 and \$1,930,000, at June 30, 2001 and 2002, respectively.

Future minimum lease payments under non-cancelable operating leases for satellite space segment services, Internet access services, teleport services, office space and other equipment with terms of one year or more consist of the following at June 30, 2002 (in thousands):

2003.....	\$	15,489
2004.....		15,542
2005.....		13,835
2006.....		12,756
2007.....		12,676
Thereafter.....		6,258

	\$	76,556
		=====

Rent expense for satellite space segment services, Internet access services, teleport services, office space and other equipment was approximately \$5,990,000, \$11,051,000 and \$17,082,000 for the years ended June 30, 2000, 2001 and 2002, respectively.

In May 2002, the Company entered into a lease agreement as the lessor of satellite earth station equipment, which is being classified as an operating lease and expires in May 2006. Equipment under this operating lease has a net book value of approximately \$562,000 and is included in fixed assets in the accompanying consolidated balance sheet at June 30, 2002. At June 30, 2002, future minimum lease payments to be received from equipment under this operating

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

lease are as follows: \$111,000 in 2003, \$186,000 in 2004, \$186,000 in 2005 and \$155,000 in 2006.

Pursuant to several of NetSat's Internet access service agreements, NetSat is the lessor of satellite earth station equipment that are classified as operating leases and expire at various dates through fiscal 2004. Equipment under these operating leases are included in fixed assets in the accompanying consolidated balance sheets and have a net book value of approximately \$289,000 and \$274,000 at June 30, 2001 and 2002, respectively. At June 30, 2002, future minimum lease payments to be received from equipment under these various operating leases are nominal.

F-24

GLOBECOMM SYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

During fiscal 2001, the Company entered into two thirty-six month operating lease agreements for satellite space segment transponders on two satellites that are expected to be launched and become operational during fiscal 2004. Future payments due on such agreements through fiscal 2007 are approximately \$6,000,000. Such satellite space segment services will begin when the satellite transponders are commercially operational, as defined in the agreements.

Employment Agreements

During January 1997, the Company entered into three-year employment agreements with two of its officers for an aggregate amount of \$325,000 per year. Effective November 1998, 1999 and 2000, such employment agreements increased to an aggregate amount of \$400,000, \$423,000 and \$516,000, respectively, per year. During October 2001, the Company entered into new three-year employment agreements with the two officers for an aggregate amount of \$516,000 per year. The Company will have certain obligations to the two officers if they are terminated for disability or following a change in control. Each employment agreement renews automatically for additional terms of one year, unless either party provides written notice to the other party of its intention to terminate the agreement.

During October 2001, the Company entered into three-year employment agreements with five other officers for an aggregate amount of approximately \$698,000 per year. The Company will have certain obligations to these officers if they are terminated for disability or following a change in control. Each employment agreement renews automatically for additional terms of one year, unless either party provides written notice to the other party of its intention to terminate the agreement.

During January 2002, the Company entered into a three-year employment agreement with another officer for an amount of \$275,000 per year. The Company will have certain obligations to this officer if terminated for disability or following a change in control. The employment agreement renews automatically for additional terms of one year, unless either party provides written notice to the other party of its intention to terminate the agreement.

F-25

GLOBECOMM SYSTEMS INC.

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS- DESCRIBE
Year ended June 30, 2000:			
Reserves and allowances deducted from asset accounts:			
Reserve for estimated doubtfull accounts receivable...	\$ 107,000	\$ 360,000	\$ -
Valuation allowance on deferred tax assets.....	6,376,000	-	3,282,000 (a)
	<u>\$ 6,483,000</u>	<u>\$ 360,000</u>	<u>\$ 3,282,000</u>
Year ended June 30, 2001:			
Reserves and allowances deducted from asset accounts:			
Reserve for estimated doubtful accounts receivable....	\$ 467,000	\$ 680,000	\$ -
Valuation allowance on deferred tax assets.....	9,658,000	-	7,743,000 (a)
Valuation allowance on leased receivables.....	-	1,073,000	-
	<u>\$10,125,000</u>	<u>\$ 1,753,000</u>	<u>\$ 7,743,000</u>
Year ended June 30, 2002:			
Reserves and allowances deducted from asset accounts:			
Reserve for estimated doubtful accounts receivable...	\$ 1,065,000	\$ 3,951,000	\$ -
Valuation allowance on deferred tax assets.....	17,401,000	-	5,756,000 (a)
	<u>\$18,466,000</u>	<u>\$ 3,951,000</u>	<u>\$ 5,756,000</u>

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

- (a) Increase in valuation allowance for net deferred tax assets.
- (b) Reduction in allowance due to write-off of accounts receivable balances.
- (c) Reduction in reserve due to write-off of leased receivables.

S-1

INDEX TO EXHIBITS:

Exhibit No.

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
- 4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the "Registration Statement")).
- 10.1 Form of Registration Rights Agreement dated as of February 1997 (incorporated by reference to Exhibit 10.1 of the Registration Statement).
- 10.2 Form of Registration Rights Agreement dated May 30, 1996 (incorporated by reference to Exhibit 10.2 of the Registration Statement).
- 10.3 Form of Registration Rights Agreement dated December 31, 1996, as amended (incorporated by reference to Exhibit 10.3 of the Registration Statement).
- 10.4 Letter Agreement for purchase and sale of 199,500 shares of Common Stock dated November 9, 1995 between the Registrant and Thomson-CSF (incorporated by reference to Exhibit 10.4 of the Registration Statement).
- 10.5 Investment Agreement dated February 12, 1996 by and between Shiron Satellite Communications (1996) Ltd. and the Registrant (incorporated by reference to Exhibit 10.5 of the Registration Statement).
- 10.6* Stock Purchase Agreement dated as of August 30, 1996 by and between C-Grams Unlimited Inc. and the Registrant (incorporated by reference to Exhibit 10.6 of the Registration Statement).
- 10.7 Memorandum of Understanding dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to Exhibit 10.7 of the Registration Statement).
- 10.8 Stock Purchase Agreement dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

- reference to Exhibit 10.8 of the Registration Statement).
- 10.9 Employment Agreement dated as of January 27, 1997 between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registration Statement).
- 10.10 Employment Agreement dated as of January 27, 1997 between the Registrant and Kenneth A. Miller (incorporated by reference to Exhibit 10.10 of the Registration Statement).
- 10.11 Purchase and Sale Agreement, 45 Oser Avenue, Hauppauge, New York, dated December 12, 1996 by and between Eaton Corporation and the Registrant (incorporated by reference to Exhibit 10.13 of the Registration Statement).
- 10.12 1997 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 of the Registration Statement).
- 10.13 Investment Agreement dated August 21, 1998 by and between McKibben Communications LLC and the Registrant (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
- 10.14 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the S-8 Registration Statement).
- 10.15 Rights Agreement, dated as of December 3, 1998, between the Company and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Company's Current Report on Form 8-K dated December 3, 1998).
- 10.16 Common Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and Globix Corporation (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).
- 10.17 Series A Preferred Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and George Soros (incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).
- 10.18 Common Stock Purchase Agreement dated October 28, 1999 between NetSat Express, Inc., Globecomm Systems Inc. and Reuters Holdings Switzerland SA (incorporated by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 1999).
- 10.19 Negotiable Promissory Note, dated April 1, 2001, between the Registrant and Donald Woodring (incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the year ended June 30, 2001).
- 10.20 Employment Agreement, dated as of October 9, 2001, by and between

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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).

- 21 Subsidiaries of the Registrant (filed herewith).
- 23 Consent of Independent Auditors (filed herewith).
- 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 99.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Confidential treatment granted for portions of this agreement.