GLOBECOMM SYSTEMS INC
Form 10-Q
February 14, 2002

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended December 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number: 000-22839

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

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

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

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

As of February 12, 2002, there were 12,753,268 shares outstanding of the Registrant's common stock, par value $.001.

1

GLOBECOMM SYSTEMS INC.

Index to the December 31, 2001 Form 10-Q

Part I -- Financial Information

Item 1. Consolidated Financial Statements ....

Consolidated Balance Sheets -- As of December 31, 2001 (unaudited) and June 30, 2001.

Consolidated Statements of Operations (unaudited) -- For the three and six months end
December 31, 2001 and 2000..

Consolidated Statement of Changes in Stockholders' Equity (unaudited) -- For the six
ended December 31, 2001...

Consolidated Statements of Cash Flows (unaudited) -- For the six months ended
December 31, 2001 and 2000..

Notes to Consolidated Financial Statements (unaudited)...........................

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations...................................

Item 3. Quantitative and Qualitative Disclosures about Market Risk...........................

Part II -- Other Information

Item 1. Legal Proceedings...

Item 2. Changes in Securities and Use of Proceeds...

Item 3. Defaults Upon Senior Securities...

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

Item 5. Other Information...

Item 6. Exhibits and Reports on Form 8-K..

Signatures..

PART I -- FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	DECEMBER 31, 2001 (UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	$42,485	
Restricted cash	809	
Accounts receivable, net	25,346	
Inventories	11,162	
Prepaid expenses and other current assets	1,208	
Total current assets	81,010	
Fixed assets, net	28,915	
Goodwill and other assets, net	7,445	
Total assets	$117,370	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,248	$
Deferred revenue	5,598	
Accrued payroll and related fringe benefits	949	
Other accrued expenses	3,081	
Deferred liability	600	
Capital lease obligations	450	
Total current liabilities	24,926	
Deferred liability, less current portion	3,041	
Capital lease obligations, less current portion	9,875	
Commitments and contingencies		
Stockholders' equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at December 31, 2001 and June 30, 2001	--	
Common stock, $.001 par value, 22,000,000 shares authorized, shares issued: 12,902,738 at December 31, 2001 and 12,865,591 at June 30, 2001	13	
Additional paid-in capital	123,510	
Accumulated deficit	(42,896)	
Accumulated other comprehensive income (loss)	3	
Treasury stock, at cost, 149,745 shares at December 31, 2001 and 147,745 at June 30, 2001	(1,102)	
Total stockholders' equity	79,528	
Total liabilities and stockholders' equity	$117,370	$

See accompanying notes.

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

	THREE MONTHS ENDED	
	DECEMBER 31, 2001	DECEMBER 31, 2000
Revenues	$22,647	$26,824
Costs of revenues	19,857	20,664
Gross profit	2,790	6,160
Operating expenses:		
Network operations	1,411	1,381
Selling and marketing	1,615	1,944
Research and development	173	157
General and administrative	2,655	4,537
Total operating expenses	5,854	8,019
Loss from operations	(3,064)	(1,859)
Other income (expense):		
Interest income	254	868
Interest expense	(241)	(2,077)
Gain on sale of investment	--	304
Loss before income taxes and minority interests in operations of consolidated subsidiary	(3,051)	(2,764)
Provision for income taxes	--	(580)
Loss before minority interests in operations of consolidated subsidiary	(3,051)	(3,344)
Minority interests in operations of consolidated subsidiary	--	(555)
Net loss	$(3,051)	$(3,899)
Basic and diluted net loss per common share	$ (0.24)	$ (0.33)
Weighted-average shares used in the calculation of basic and diluted net loss per common share	12,719	11,890

See accompanying notes.

4

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2001
(IN THOUSANDS)

(UNAUDITED)

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	ACCUMULATED OTHER COMPREHENSIVE	TRE
	SHARES	AMOUNT	CAPITAL	DEFICIT	INCOME (LOSS)	SHAR
Balance at June 30, 2001	12,866	$ 13	$123,276	$ (36,997)	$(57)	1
Proceeds from exercise of stock options	7	--	25	--	--	
Issuance of common stock in connection with employee stock purchase plan	30	--	154	--	--	
Stock options granted for services	--	--	55	--	--	
Purchase of treasury stock	--	--	--	--	--	
Comprehensive loss:						
Net loss	--	--	--	(5,899)	--	
Gain from foreign currency translation	--	--	--	--	60	
Total comprehensive loss	--	--	--	--	--	
Balance at December 31, 2001	12,903	$ 13	$123,510	$ (42,896)	$ 3	1

See accompanying notes.

5

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

	SIX MO
	DECEMBER 31, 2001
OPERATING ACTIVITIES:	
Net loss	$ (5,899)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	1,955
Provision for doubtful accounts	120
Stock compensation expense	55
Deferred income taxes	--
Gain on sale of investment	--
Minority interests in operations of consolidated subsidiary	--
Interest on capital lease obligations	--
Changes in operating assets and liabilities:	
Accounts receivable	(55)

Inventories	4,147
Prepaid expenses and other current assets	(405)
Other assets	47
Accounts payable	(1,083)
Deferred revenue	(258)
Accrued payroll and related fringe benefits	18
Other accrued expenses	(532)
Net cash used in operating activities	(1,890)
INVESTING ACTIVITIES:	
Purchases of fixed assets, net of non-cash capital lease expenditures	(413)
Restricted cash	(221)
Proceeds from sale of investment	--
Net cash used in investing activities	(634)
FINANCING ACTIVITIES:	
Proceeds from exercise of stock options	25
Proceeds from sale of common stock in connection with employee stock purchase plan	154
Payments under capital leases	(210)
Purchase of treasury stock	(8)
Net cash (used in) provided by financing activities	(39)
Effect of foreign currency translation on cash	10
Net decrease in cash and cash equivalents	(2,553)
Cash and cash equivalents at beginning of period	45,038
Cash and cash equivalents at end of period	$ 42,485

See accompanying notes.

6

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for such periods have been included. The consolidated balance sheet at June 30, 2001 has been derived from the audited consolidated financial

statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three and six months ended December 31, 2001 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2002, or for any future period. 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 reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2001 and the accompanying notes thereto contained in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 28, 2001.

Comprehensive loss

Comprehensive loss for the three and six months ended December 31, 2001 of approximately $2,965,000 and $5,839,000 includes a foreign currency translation (loss) gain of approximately ($3,000) and $60,000 and an unrealized gain on available-for-sale equity securities of approximately $89,000 and $0 for the three and six months ended December 31, 2001, respectively. The Company's comprehensive loss for the three and six months ended December 31, 2000 of approximately $3,939,000 and $7,748,000 includes a foreign currency translation loss of approximately $11,000 and $27,000 and an unrealized loss on available-for-sale equity securities of approximately $29,000 and $29,000 for the three and six months ended December 31, 2000, respectively.

Income Taxes

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income. For the three and six months ended December 31, 2001 and the year ended June 30, 2001, the Company incurred a net loss, and accordingly, management provided a full valuation allowance for the net deferred tax assets. For the three and six months ended December 31 2000, the Company realized approximately $580,000 and $995,000, respectively, of deferred tax assets based on projected fiscal 2001 taxable income.

2. GOODWILL AND OTHER ASSETS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141"), and No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), effective for fiscal years beginning after December 15, 2001. SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations completed on or after July 1, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain specified criteria. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. SFAS No. 142 also requires that the Company

identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets and cease amortization of intangible assets with an indefinite useful life.

On July 1, 2001, the Company adopted the new rules on business combinations and accounting for goodwill and other intangible assets. The Company's previous business combinations were accounted for using the purchase method of accounting. Goodwill has a net carrying amount of approximately $7,441,000 at December 31, 2001. Application of the nonamortization provisions of SFAS No. 142 is expected to result in a decrease in net loss of approximately $860,000, or $.07 per diluted share, for all of fiscal 2002. The Company has completed its assessment of the assets impacted by the adoption of SFAS No. 142, and based upon such review, no impact to the carrying value of goodwill was identified.

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

	THREE MONTHS ENDED		
	DECEMBER 31, 2001	DECEMBER 31, 2000	DEC
	(UNAUDITED) (IN THOUSANDS, EXCEPT PER SH		
Reported net loss	$(3,051)	$(3,899)	
Add back goodwill amortization	--	39	
Adjusted net loss	$(3,051)	$(3,860)	
Basic and diluted net loss per common share:			
As reported	$ (0.24)	$ (0.33)	
Goodwill amortization	--	0.01	
Adjusted basic and diluted net loss per common share	$ (0.24)	$ (0.32)	

3. RESTRUCTURING CHARGE

In connection with management's plan to reduce costs and to improve NetSat's operating efficiencies, the Company recorded a restructuring charge of approximately $1,950,000 during the fourth quarter of fiscal year ended June 30, 2001. The restructuring charge is 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 combining operations and reducing costs. Through December 31, 2001, $1,700,000 was charged against the restructuring accrual leaving a balance of approximately $250,000 at December 31, 2001.

4. BASIC AND DILUTED NET LOSS PER COMMON SHARE

The Company computes net loss per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per

Share." Basic and diluted net loss per common share is computed by dividing the net loss for the period by the weighted-average number of common and dilutive equivalent shares outstanding for the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of preferred stock (using an if-converted method) and incremental shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Incremental common equivalent shares are excluded from the calculation of diluted net loss per share if their effect is anti-dilutive. Diluted net loss per share for the three and six months ended December 31, 2001, excludes the effect of approximately 66,000 and 108,000 stock options, respectively, as their effect would have been anti-dilutive. Diluted net loss per share for the three and six months ended December 31, 2000, excludes the effect of approximately 286,000 and 433,000 stock options and approximately 3,000 and 13,000 warrants, respectively, as their effect would have been anti-dilutive.

8

5. 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.

Inventories consist of the following:

	DECEMBER 31, 2001	JUNE 30, 2001
	(UNAUDITED)	
	(IN THOUSANDS)	
Raw materials and component parts	$ 595	$ 608
Work-in-progress	10,567	14,677
	$ 11,162	$ 15,285

6. SEGMENT INFORMATION

The Company operates through two business segments. Its ground segment systems, networks and enterprise solutions segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems, networks and enterprise solutions for the complex and changing communications requirements of its customers. Its data communications services segment, through its wholly owned subsidiary NetSat Express Inc., is engaged in providing high-speed, satellite-delivered data communications to developing markets worldwide. NetSat Express is currently providing 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 for the three and six months ended December 31, 2001 and 2000 and as of December 31, 2001 and June 30, 2001:

THREE MONTHS ENDED SIX MONTH

	DECEMBER 31, 2001	DECEMBER 31, 2000	DECEMBER 31, 2001
	(IN THOUSANDS)		
	(UNAUDITED)		(UNAUDITE
Revenues:			
Ground segment systems, networks and enterprise solutions	$ 17,627	$22,878	$ 36,563
Data communications services	5,808	7,056	12,072
Intercompany eliminations	(788)	(3,110)	(1,768)
Total revenues	$ 22,647	$26,824	$ 46,867
Loss from operations:			
Ground segment systems, networks and enterprise solutions	$ (1,459)	$ (62)	$ (2,623)
Data communications services	(1,605)	(1,743)	(3,472)
Interest income	254	868	677
Interest expense	(241)	(2,077)	(484)
Gain on sale of investment	-	304	-
Provision for income taxes	-	(580)	-
Minority interests in operations of consolidated subsidiary	-	(555)	-
Intercompany eliminations	-	(54)	3
Net loss	$ (3,051)	$(3,899)	$ (5,899)

	THREE MONTHS ENDED DECEMBER 31, 2001	DECEMBER 31, 2000	SIX MON DECEMBER 31, 2001
	(IN THOUSANDS)		
	(UNAUDITED)		(UNA
Depreciation and amortization:			
Ground segment systems, networks and enterprise solutions	$ 446	$ 426	$ 892
Data communications services	484	2,051	1,069
Intercompany eliminations	(3)	(3)	(6)
Total depreciation and amortization	$ 927	$ 2,474	$ 1,955
Expenditures for long-lived assets:			
Ground segment systems, networks and enterprise solutions	$ 159	$ 916	$ 298
Data communications services	35	2,670	115
Intercompany eliminations	--	(126)	--
Total expenditures for long-lived assets	$ 194	$ 3,460	$ 413

	DECEMBER 31, 2001 (UNAUDITED)	JUNE 30, 2001
	(IN THOUSANDS)	
Assets:		
Ground segment systems, networks and enterprise solutions	$ 132,944	$ 136,103
Data communications services	22,304	21,985
Intercompany eliminations	(37,878)	(33,089)
Total assets	$ 117,370	$ 124,999

7. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), which supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of ("SFAS No. 121"). The basis for recognition and measurement model under SFAS No. 121 for assets held for use and held for sale has been retained. SFAS No. 144 removes goodwill from its scope, thus eliminating SFAS No. 121's requirement to allocate goodwill to long-lived assets to be tested for impairment. The accounting for goodwill now is subject to the provisions of SFAS No. 141 and 142 on business combinations and other intangible assets. SFAS No. 144 provides guidance on differentiating between assets held and used, held for sale, and held for disposal other than by sale. SFAS No. 144 continues to require a three-step approach for recognizing and measuring the impairment of assets to be held and used. This new statement is effective for financial statements issued for fiscal years beginning after December 31, 2001 and is to be applied prospectively. The Company does not expect the adoption of this statement to have a material impact on the Company's financial position, result of operations or liquidity.

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below as well as those discussed in our other filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

OVERVIEW

Since our inception, a majority of our revenues have been generated by our 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 virtually all 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 may at times be 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. The period from contract award through installation of ground segment systems and networks and communications services supplied by us generally is from three to twelve months.

We recognize revenue in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, for our short-term (less than twelve months in term) production-type contracts that are sold separately as stand-alone ground segment systems. Such contracts typically require less engineering, drafting and design efforts than other longer-term production-type projects and usually require customer acceptance upon completion of installation of the equipment at the customers' site. Accordingly, we typically recognize 80-90% of the contract value upon shipment with the balance recognized upon receipt of the customers' final acceptance. Installation is not deemed to be essential to the functionality of the equipment since installation is mechanical in nature and does not require significant change to the features or capability of the equipment, or require complex software integration and interfacing. In addition, the customer or other vendors can install the equipment; and generally the cost of installation is approximately 10-20% of the sales value of the related equipment. Payments received in advance by customers are deferred until shipment and are presented as deferred revenue.

We use the percentage-of-completion method of accounting to recognize revenue for our long-term (in excess of twelve months in term), more complex production-type contracts that are generally integrated into complete ground segment networks, 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.

NetSat Express' revenues are derived primarily from Internet access service fees and sales of hardware and equipment. Service revenues from Internet access are recognized ratably over the period in which services are provided. Sales of hardware and equipment are recognized upon shipment. Payments received in advance of providing Internet access services are deferred until the period such services are provided and are presented as deferred revenue.

Contract costs generally include purchased material, direct labor, overhead and other indirect costs. Anticipated contracted losses are recognized as they become known. Costs of revenues consist primarily of the costs of purchased materials, direct labor and related overhead expenses, project-related travel, living costs and subcontractor salaries. In addition, cost of revenues relating to Internet access service fees consists primarily of satellite space segment charges and Internet connectivity fees. 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. 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.

RESULTS OF OPERATIONS

Three and Six Months Ended December 31, 2001 and 2000

Revenues. Revenues decreased by $4.2 million, or 15.6%, to $22.6 million for the three months ended December 31, 2001 and decreased by $6.4

million, or 12.0% to $46.9 million for the six months ended December 31, 2001 compared to $26.8 million and $53.3 million for the three and six months ended December 31, 2000. The decrease reflects the uncertainty surrounding the global economic slowdown in the telecommunications industry, resulting in customers and prospects continuing to delay projects.

Gross Profit. Gross profit decreased by $3.4 million, or 54.7%, to $2.8 million for the three months ended December 31, 2001 and decreased by $5.7 million or 50.2%, to $5.6 million for the six months ended December 31, 2001 from $6.2 million and $11.3 million for the three and six months ended December 31, 2000. Gross profit as a percentage of revenues for the three months ended December 31, 2001, decreased to 12.3%, compared to 23.0% for the three months ended December 31, 2000 and for the six months ended December 31, 2001 decreased to 12.0% compared to 21.2% for the six months ended December 31, 2000. This decrease is attributable to a lower revenue base resulting from the delay or cancellation of projects and certain unutilized satellite transponder capacity. We expect our gross margins to decline in the future due to the under-utilization of satellite transponder space and the global economic slowdown in the telecommunications industry.

Network Operations. Network operations expenses remained relatively consistent at $1.4 million for the three months ended December 31, 2001 and 2000 and increased by $0.6 million, or 29.2%, to $2.8 million, for the six months ended December 31, 2001 compared to $2.1 million for the comparable six months ended December 31, 2000. The increase is due to the continuing expansion of our network operations center and related expenses to support the service base.

Selling and Marketing. Selling and marketing expenses decreased by $0.3 million, or 16.9%, to $1.6 million for the three months ended December 31, 2001 and decreased by $0.8 million, or 20.3%, to $3.2 million, for the six months ended December 31, 2001 compared to $1.9 million and $4.0 million for the comparable three and six months ended December 31, 2000. This decrease is attributable to a cost reduction program, which included a reduction in work force partially offset by additional selling and marketing efforts, which included the addition of a Corporate Vice President of Sales and Marketing.

Research and Development. Research and development expenses remained relatively consistent at $0.2 million and $0.4 million, respectively, for the three and six months ended December 31, 2001 and 2000.

General and Administrative. General and administrative expenses decreased by $1.9 million, or 41.5%, to $2.7 million for the three months ended December 31, 2001 and decreased by $3.7 million, or 41.3%, to $5.3 million, for the six months ended December 31, 2001 compared to $4.5 million and $9.0 million for the comparable three and six months ended December 31, 2000. General and administrative expenses as a percentage of revenues for the three months ended December 31, 2001 decreased to 11.7% compared to 16.9% for the three months ended December 31, 2000 and decreased for the six months ended December 31, 2001 to 11.3% compared to 17.0% for the six months ended December 31, 2000. The decrease in general and administrative expenses is primarily due to reduced depreciation expense related to the renegotiation of one of our capitalized lease arrangements to an operating lease arrangement in the fourth quarter of fiscal 2001.

Interest Income. Interest income decreased by $0.6 million, or 70.7%, to $0.3 million for the three months ended December 31, 2001 compared to $0.9 million for the three months ended December 31, 2000, and decreased by $1.2 million, or 63.3%, to $0.7 million for the six months ended December 31, 2001 compared to $1.8 million for the six months ended December 31, 2000. The decrease is primarily the result of a decline in interest rates and reduced cash balances due to cash used in operations during the six months ended December 31, 2001 and the fiscal year ended June 30, 2001.

Interest Expense. Interest expense decreased by $1.8 million, or 88.4%, to $0.2 million for the three months ended December 31, 2001 compared to $2.1 million for the three months ended December 31, 2000, and decreased by $3.5 million, or 88.0%, to $0.5 million for the six months ended December 31, 2001 compared to $4.0 million for the six months ended December 31, 2000. The decrease primarily relates to the renegotiation of capitalized lease arrangements to operating lease arrangements in the fourth quarter of fiscal 2001.

Gain on Sale of Investment. The gain on sale of investment of $0.3 million during the second quarter of fiscal 2001 relates to the sale of our interest in a cost method investment.

Provision for Income Taxes. Provision for income taxes decreased by $0.6 million, or 100.0%, for the three months ended December 31, 2001 and decreased $1.0 million, or 100%, for the six months ended December 31, 2001 compared to the three and six months ended December 31, 2000. As the Company incurred a net loss for the three and six months ended December 31, 2001 and the Company provided a full valuation allowance for its net deferred tax assets, accordingly no provision for income taxes was recorded during fiscal 2002.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, we had working capital of $56.1 million, including cash and cash equivalents of $42.5 million, restricted cash of $0.8 million, net accounts receivable of $25.3 million, inventories of $11.2 million and prepaid expenses and other current assets of $1.2 million, offset by $14.2 million in accounts payable, $5.6 million in deferred revenue and $5.1 million in accrued expenses and other current liabilities.

Net cash used in operating activities during the six months ended December 31, 2001 was $1.9 million, which primarily relates to the current period net loss of $5.9 million offset by a decrease in inventories of $4.1 million due to the completion of certain jobs.

Net cash used in investing activities during the six months ended December 31, 2001 was $0.6 million. During the six months ended December 31, 2001, we used cash of $0.4 million to purchase fixed assets primarily related to the continuing expansion of the network operations center in order to support the Company's service base.

Effective December 15, 2001, the Company modified its bank agreement and increased the credit facility to $5.4 million from $5.0 million. The modified credit facility, which has substantially the same terms as the previous facility consists of (1) a $2.0 million secured domestic line of credit and (2) a $3.4 million secured export-import guaranteed line of credit. Each line of credit bears interest at the prime rate (4.75% at December 31, 2001) plus 0.50% per annum and is collateralized by a first security interest on all our assets. The credit facility, which expires on February 15, 2002, contains certain financial covenants, which the Company was in compliance with at December 31, 2001. While the Company intends to renew this credit facility, there can be no assurances that it will renew such facility, or that, if renewed, it will contain terms and conditions favorable to the Company. As of December 31, 2001, no amounts were outstanding under this credit facility.

We also lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through 2007.

Future minimum lease payments due on these leases through December 31, 2002 are approximately $19.4 million.

On November 7, 2001, the Board of Directors authorized a stock repurchase program of 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 price of $4.45 per share. 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 by NetSat Express, Inc. as a result of a decrease in orders and continued under-utilization of satellite transponder space.

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 are able to locate additional strategic suppliers in whose technology we wish to invest, the extent to which we must conduct research and development efforts internally and potential acquisitions of complementary businesses, products or technologies. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements through December 31, 2002. However, we cannot assure you that there will be no change that would consume available resources significantly before that time. For example, recent terrorist attacks on the United States, 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 and operating activities of NetSat Express. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

CERTAIN BUSINESS CONSIDERATIONS

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 $5.9 million for the six months ended December 31, 2001, $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 December 31, 2001, our accumulated deficit was approximately $42.9 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 recently deteriorated and affected the overall rate of capital spending by our customers. Also, many companies are finding it increasingly difficult to raise capital to finish building their communications networks and therefore are placing fewer orders with our customers. The current economic slowdown has resulted in a softening of demand from our customers. We believe that this slowdown is generally the result of slower than forecasted growth in a number of key segments, including communications infrastructure equipment, resulting from a reduction in the capital spending of service providers. We cannot predict the extent to which this softening of demand will continue. Further, increased competition among satellite ground segment systems and networks manufacturers may lead to overcapacity and falling prices.

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. We presently conduct our international sales in the following geographic areas: Africa, the Asia-Pacific Region, Australia, Central and South America, Eastern and Central Europe and the Middle East. There are some risks inherent in conducting our business internationally, including:

- general political and economic instability in international markets, 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;

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

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

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

- protectionist laws and business practices favoring local competition may give unequal bargaining leverage to key vendors in countries where competition is scarce, significantly increasing our operating costs;
- increased expenses associated with marketing services in foreign countries;
- decreases in value of foreign currency relative to the U.S. dollar;
- relying on local subcontractors for installation of our products and services;
- difficulties in staffing and managing foreign operations;
- potentially adverse taxes;
- complex foreign laws and treaties; and
- difficulties in collecting accounts receivable.

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

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

We have historically provided our customers with satellite ground segment systems and networks as a product on a 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 provides 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 EXPRESS 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 Express' future revenues and results of operations are dependent on its execution of its business strategy and the development of the market for its current and future services. In particular, the current level and manner of utilization of NetSat Express' transponder space as well as a decrease in orders currently being experienced continues to harm our results of operation, and our gross profit margins in particular. If NetSat does not efficiently and substantially utilize its transponder space capacity or increase its level of orders, our results of operations, and our gross profit margins in particular, will be harmed. We cannot assure you that the transponder space will be efficiently and substantially utilized or that an increase in orders will be realized.

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, 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 effected our results of operations for the six months ended December 31, 2001 and the fiscal year ended June 30, 2001. We expect that these negative trends will continue to adversely impact our results of operations.

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

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

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

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

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

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

provide integrated systems like Andrew Corporation and Vertex-RSI.

In the communications services and Internet access services markets, we compete with other satellite communication companies who provide similar services, like Loral CyberStar, Inc. and PanAmSat Corporation and Verestar, as well as other Internet services providers. In addition, we may compete with other communications service providers like Teleglobe, Inc. and MCI WorldCom Inc. 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 to three years. These competitors 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 that

they could use to their advantage in competitive situations.

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

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

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

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

We have incurred negative cash flows from operations in each year since our inception. We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through December 31, 2002. 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. We may need to raise additional funds in order to meet additional working capital requirements and to support additional capital expenditures. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If adequate funds are unavailable, we may

be required to delay, reduce or eliminate some of our operating activities, including marketing programs, hiring of additional personnel and research and development programs. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

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 Express' 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 CUSTOMERS ACCOUNT FOR A HIGH PERCENTAGE OF OUR REVENUE, AND THE LOSS OF A KEY CUSTOMER WOULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS, BUSINESS AND FINANCIAL CONDITION.

We rely on a small number of customers 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 customers. 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, a loss of or decrease in business from one or more of these customers would materially adversely affect our results of operations and financial condition.

OUR INABILITY TO EFFECTIVELY MANAGE OUR GROWTH AND EXPANSION COULD SERIOUSLY HARM OUR ABILITY TO EFFECTIVELY RUN OUR BUSINESS.

Since our inception, we have continued to increase the scope of our operations. This growth has placed, and our anticipated growth will continue to place, a significant strain on our personnel, management, financial and other resources. Any failure to manage our growth effectively could seriously harm our ability to respond to customers,

monitor the quality of our products and services and maintain the overall efficiency of our operations. In order to continue to pursue the opportunities presented by our satellite-based communications services, we plan to continue to hire key officers and other employees and to increase our operating expenses by broadening our customer support capabilities, expanding our sales and marketing operations and improving our operating and financial systems. If we fail to manage any future growth in an efficient manner, and at a pace consistent with our business, our results of operations, financial condition and business will be harmed.

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

We have agreements with four 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 EMERGING MARKETS, OUR REVENUES WILL BE IMPAIRED.

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

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

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

- the acceptance of our products and services by customers.

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

WE DEPEND UPON CERTAIN KEY PERSONNEL AND MAY NOT BE ABLE TO RETAIN THESE EMPLOYEES OR RECRUIT ADDITIONAL QUALIFIED PERSONNEL, WHICH WOULD HARM OUR BUSINESS.

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.

Our future success depends upon our ability to attract, retain and motivate highly skilled employees. Because the competition for qualified employees among companies in the satellite communications industry and the networking industry is intense, we may not be successful in recruiting or retaining qualified personnel, which would harm our business.

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

We have filed applications for trademark registration of Globecomm Systems Inc., Globecomm, and GSI in the United States and various other countries, and have been granted registrations for some of these terms in Europe and Russia. We have received trademark registrations for NetSat Express 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.

THROUGH THEIR OWNERSHIP, OUR OFFICERS AND DIRECTORS AND THEIR AFFILIATES MAY BE ABLE TO EXERT SUBSTANTIAL INFLUENCE OVER OUR MANAGEMENT.

As of February 12, 2002, our officers and directors, and their affiliates beneficially own approximately 1.8 million shares, constituting

approximately 13.6% of our outstanding common stock. These stockholders, acting together, may be able to exert significant influence over the election of directors and other corporate actions requiring stockholder approval.

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

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

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

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

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

WE MAY BE UNABLE TO LEASE TRANSPONDER SPACE ON SATELLITES, WHICH COULD LIMIT OUR ABILITY TO PROVIDE OUR SERVICES TO OUR CUSTOMERS.

We and NetSat Express lease transponder space on satellites in order to provide communications and Internet services to our customers and the customers of NetSat Express. The supply of transponder space serving a geographic region on earth is limited by the number of satellites that are in orbit above that geographic region. If companies that own and deploy satellites in orbit underestimate the demand for transponder space in a given geographic area or they are simply unable to build and launch enough satellites to keep up with increasing demand, the price for leasing transponder space could rise, increasing our cost of operations or we simply may not be able to lease enough transponder space where needed to meet the demands of our customers. We currently anticipate that the rapid growth in the demand for satellite-based communications worldwide could lead to a short-term shortage of transponder space.

WE RELY ON NETSAT EXPRESS, 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 EXPRESS FOR THIS SUPPLY, OUR BUSINESS MAY BE HARMED.

We currently depend on NetSat Express for a majority of our transponder space on satellites. We do not have a long-term agreement in place with NetSat Express, as most of our needs are filled on a purchase order basis. If NetSat Express is unable to develop its business or if we are unable to continue to rely on its 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:

- quarterly variations in operating results;
- announcements of new technology, products or services by us or any of our competitors;

- acceptance of satellite-based communication services and Internet access services in developing countries with emerging markets;
- changes in financial estimates or recommendations by security analysts; or
- general market conditions, including, but not limited to, results of the terrorist attacks on September 11, 2001 and the related outbreak of hostilities.

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

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

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

RISKS RELATED TO GOVERNMENT APPROVALS

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

OPERATIONS AND USE OF SATELLITES

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communications Commission, or FCC, licensed earth stations in Hauppauge, New York, subject to the Communications Act of 1934, as amended (the 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.

FOREIGN REGULATIONS

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

there may be instances of noncompliance of which we are not aware. We cannot assure you that our licenses and approvals are or will remain sufficient in the view of foreign regulatory authorities, or that necessary licenses and approvals will be granted on a timely basis in all jurisdictions in which we wish to offer our products and services or that restrictions applicable thereto will not be unduly burdensome.

REGULATION OF THE INTERNET

Due to the increasing popularity and use of the Internet it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues including user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications. It is anticipated that a substantial portion of our Internet operations will be carried out in countries, 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 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 U.S. Efforts have been made from time to time, and may be made again in the future, to eliminate this exemption. If these access charges are imposed on telephone lines used to reach Internet service providers, and/or if flat rate telephone services for Internet access are eliminated or curtailed, the cost to customers who access our satellite facilities using telephone company-provided facilities could increase to an extent that could discourage the demand for our services. Likewise, the demand for our services in other countries may be affected by the availability and cost of local telephone or other telecommunications facilities to reach our facilities.

EXPORT OF TELECOMMUNICATIONS EQUIPMENT

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates for certain purchases from foreign vendors, if applicable. Accordingly, we utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. As of December 31, 2001, we had no such foreign currency forward contracts.

Our results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from our investment of available cash balances in money market funds with portfolios of investment grade corporate and U.S. 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.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

(a) The Company's Annual Meeting of Stockholders was held on November 15, 2001 (the "Annual Meeting").

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

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

Board Member	In Favor	Against
Richard E. Caruso	11,080,349	385,333
Benjamin Duhov	11,135,649	330,033
David E. Hershberg	10,987,601	478,081
Kenneth A. Miller	11,135,849	329,833
A. Robert Towbin	11,135,849	329,833
C.J. Waylan	11,135,849	329,833
Donald G. Woodring	11,135,849	329,833
Stephen C. Yablonski	11,134,954	330,728

(ii) The amendment to the Company's 1997 Stock Incentive Plan to increase the number of shares of common stock authorized to be issued from 3,476,463 to 4,276,463 was voted upon as follows: 5,674,210 shares in favor; 1,215,043 shares against; and 48,769 shares abstaining.

23

(iii) The appointment of Ernst & Young LLP as independent auditors of the Company to serve for the year ending June 30, 2002 was voted upon as follows: 11,428,871 shares in favor; 20,813 shares against; and 15,998 shares abstaining.

ITEM 5. OTHER INFORMATION

During the fiscal year ended June 30, 2001, Ernst & Young LLP provided audit, audit related and non-audit services to the Company as follows:

(a) Audit Fees: Aggregate fees billed for professional services rendered for the audit of the Company's fiscal year 2001 annual financial statements and review of the interim financial statements included in the Company's quarterly reports on Form 10-Q for fiscal year 2001: approximately $132,000.

(b) Financial Information Systems Design and Implementation Fees: none

(c) All Other Fees: Aggregate fees billed for professional services rendered for all services other than those professional services covered in the section captioned "Audit Fees" for the Company's fiscal year 2001 (such services including (i) income tax compliance and consulting services; (ii) filing of certain SEC registration statements; and (iii) consultation on accounting standards and transactions): approximately $166,000.

The Audit Committee of the Board of Directors of the Company has considered whether provision of the services described in sections (b) and (c) above is compatible with maintaining the independent accountant's independence and has determined that such services have not adversely affected Ernst & Young LLP's independence.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Index to Exhibits:

Exhibit No.	
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
3.2	Amended and Restated By-laws of the Company (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 Company defining rights of holders of Common Stock of the Company (incorporated by reference to Exhibit 4.2 of the Company'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 Company 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 Company (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 Company (incorporated by reference to exhibit 10.6 of the Registration Statement).
10.7	Memorandum of Understanding, dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to exhibit 10.7 of the Registration Statement).
10.8	Stock Purchase Agreement, dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by reference to exhibit 10.8 of the Registration Statement).
10.9	Employment Agreement, dated as of October 9, 2001, by and between David E. Hershberg and the Company (incorporated by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
10.10	Employment Agreement, dated as of October 9, 2001, by and between Kenneth A. Miller and the Company (incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).

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

10.12 Amended and Restated 1997 Stock Incentive Plan (incorporated by reference to exhibit 4 of the Company's Registration Statement on Form S-8, File No. 333-54622, filed on January 30, 2001).

10.13 Investment Agreement, dated August 21, 1998 by and between McKibben Communications LLC and the Company (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 Company's Registration Statement on Form S-8, File No. 333-70527, filed on January 13, 1999).

10.15 Rights Agreement, dated as of December 3, 1998, between American Stock Transfer and Trust Company and the 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, by and between Donald G. Woodring and the Company (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 (filed herewith).

* Confidential treatment granted for portions of this agreement.

(b) Reports on Form 8-K

None

SIGNATURES

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

GLOBECOMM SYSTEMS INC.

Date: February 14, 2002

/s/ David E. Hershberg

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

Date: February 14, 2002

/s/ Andrew C. Melfi

Andrew C. Melfi

Vice President and Chief Financial
Officer (Principal Financial and
Accounting Officer)

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28

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