GLOBECOMM SYSTEMS INC
Form 10-Q
May 10, 2007

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

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 000-22839

Globecomm Systems Inc.

(Exact name of Registrant as specified in its charter)

Delaware	11-3225567
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
45 Oser Avenue, Hauppauge, NY	11788
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (631) 231-9800

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 7, 2007, there were 16,332,404 shares of the registrant's Common Stock outstanding.

GLOBECOMM SYSTEMS INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2007 (Unaudited)	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 29,768	$ 24,512
Accounts receivable, net	26,667	30,837
Inventories	16,770	13,058
Prepaid expenses and other current assets	1,718	1,131
Deferred income taxes	22	22
Total current assets	74,945	69,560
Fixed assets, net	27,368	15,510
Goodwill	7,204	7,204
Other assets	908	960
Total assets	$ 110,425	$ 93,234
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 18,644	$ 19,020
Deferred revenues	6,351	1,691
Accrued payroll and related fringe benefits	3,716	2,872
Other accrued expenses	1,921	1,966
Deferred liabilities	296	316
Total current liabilities	30,928	25,865
Other liabilities	1,077	353
Commitments and contingencies		
Stockholders' equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at March 31, 2007 and June 30, 2006	—	—
Common stock, $.001 par value, 50,000,000 shares authorized, shares issued: 16,631,668 at March 31, 2007 and 15,660,524 at June 30, 2006	17	16
Additional paid-in capital	142,022	135,673
Accumulated deficit	(60,838)	(65,892)
Treasury stock, at cost, 465,351 shares at March 31, 2007 and June 30, 2006	(2,781)	(2,781)
Total stockholders' equity	78,420	67,016
Total liabilities and stockholders' equity	$ 110,425	$ 93,234

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
Revenues from ground segment systems, networks and enterprise solutions	$ 31,818	$ 23,735	$ 77,630	$ 69,358
Revenues from data communications services	7,299	7,306	23,927	21,171
Total revenues	39,117	31,041	101,557	90,529
Costs and operating expenses:				
Costs from ground segment systems, networks and enterprise solutions	25,225	19,616	62,502	57,842
Costs from data communications services	6,131	5,873	19,694	17,584
Selling and marketing	2,290	1,871	5,831	5,000
Research and development	440	268	963	538
General and administrative	3,033	2,379	8,398	7,187
Total costs and operating expenses	37,119	30,007	97,388	88,151
Income from operations	1,998	1,034	4,169	2,378
Interest income	391	247	1,007	703
Income before income taxes	2,389	1,281	5,176	3,081
Provision for income taxes	57	42	122	92
Net income	$ 2,332	$ 1,239	$ 5,054	$ 2,989
Basic net income per common share	$ 0.15	$ 0.08	$ 0.32	$ 0.20
Diluted net income per common share	$ 0.14	$ 0.08	$ 0.31	$ 0.19
Weighted-average shares used in the calculation of basic net income per common share	16,045	15,098	15,620	14,940
Weighted-average shares used in the calculation of diluted net income per common share	16,954	15,682	16,473	15,547

See accompanying notes.

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

(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance at June 30, 2006	15,661	$ 16	$135,673	$(65,892)	465	$(2,781)	$67,016
Proceeds from exercise of stock options	791	1	5,028				5,029
Proceeds from exercise of warrants	180		1,101				1,101
Stock compensation expense			171				171
Tax benefit from stock compensation plan			49				49
Net income				5,054			5,054
Balance at March 31, 2007	16,632	$ 17	$142,022	$(60,838)	465	$(2,781)	$78,420

See accompanying notes.

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

	Nine Months Ended	
	March 31, 2007	March 31, 2006
Operating activities:		
Net income	$ 5,054	$ 2,989
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,229	2,287
Provision for doubtful accounts	457	379
Stock compensation expense	171	105
Tax benefit from stock compensation plan	49	—
Changes in operating assets and liabilities:		
Accounts receivable	3,713	526
Inventories	(3,712)	(3,991)
Prepaid expenses and other current assets	(587)	(126)
Other assets	52	73
Accounts payable	(376)	(368)

Deferred revenue	4,660	(2,586)
Accrued payroll and related fringe benefits	844	(61)
Other accrued expenses	(45)	—
Other liabilities	704	(238)
Net cash provided by (used in) operating activities	13,213	(1,011)
Investing activities:		
Purchases of fixed assets	(14,087)	(1,332)
Net cash used in investing activities	(14,087)	(1,332)
Financing activities:		
Proceeds from exercise of stock options	5,029	1,996
Proceeds from exercise of warrants	1,101	440
Net cash provided by financing activities	6,130	2,436
Effect of foreign currency translation on cash	—	(22)
Net increase in cash and cash equivalents	5,256	71
Cash and cash equivalents at beginning of period	24,512	25,609
Cash and cash equivalents at end of period	$ 29,768	$ 25,680

See accompanying notes.

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GLOBECOMM SYSTEMS INC.
Notes to Consolidated Financial Statements
March 31, 2007
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for such periods have been included. The consolidated balance sheet at June 30, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three and nine months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2007, or for any future period.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2006 and the accompanying notes thereto contained in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 13, 2006.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Globecomm Network Services Corporation (‘‘GNSC’’), and Globecomm Systems Europe Limited (collectively, the ‘‘Company’’). On June 30, 2006, the Company liquidated the Globecomm Systems Europe Limited entity. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates

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

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 (‘‘SAB 104’’), Revenue Recognition, for its production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. The Company’s standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than the Company’s long-term complex production-type projects. Revenue is recognized on the Company’s standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer’s contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory

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

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

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

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

Costs from Ground Segment Systems, Networks and Enterprise Solutions

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

Costs from Data Communications Services

Costs from data communications services relating to Internet-based services consist primarily of satellite space segment charges, Internet connectivity fees, voice termination costs and network operations expenses. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the Network Operation Center, on a twenty-four hour a day, seven-day a week basis, including personnel and related costs and depreciation.

Research and Development

Research and development expenditures are expensed as incurred.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS 123 (‘‘SFAS 123R’’). SFAS 123R

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eliminates the ability to account for share-based compensation under the intrinsic value method permitted by APB 25. This requires the Company to adopt the fair value model for recognizing compensation expense for employee stock options, and has the effect of reducing the Company’s reported net income and net income per share.

On July 1, 2005, the Company adopted SFAS 123R using a modified prospective application, as permitted under SFAS 123R. Under this application, the Company records compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Stock compensation expense was approximately $12,000 and $171,000 for the three and nine months ended March 31, 2007, respectively. Stock compensation expense was approximately $2,000 and $105,000 for the three and nine months ended March 31, 2006. As of March 31, 2007, there was approximately $208,000 of unrecognized compensation cost related to non-vested stock-based compensation. The cost is expected to be recognized over a weighted-average period of 3.3 years.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment. There have been no events during the nine months ended March 31, 2007 that would result in any goodwill impairment.

Other Liabilities

Other liabilities consist primarily of security deposits received from customers for long term projects which are due to the customer beyond one year from the balance sheet date.

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 net deferred tax assets is dependent upon the generation of future taxable income prior to the expiration of any net operating loss carryforwards. For the nine months ended March 31, 2007 and the year ended June 30, 2006, due to the uncertainty regarding the Company's ability to utilize its net operating losses in the future, the Company provided a valuation allowance against its previously recorded deferred tax assets except for approximately $22,000, representing state investment tax credit carryforwards that will be utilized to offset state capital taxes on the Company's combined state tax return. The tax provision was approximately $57,000 and $122,000 for the three and nine months ended March 31, 2007, respectively, and $42,000 and $92,000 for the three and nine months ended March 31, 2006, respectively. The tax provision represents the estimated federal alternative minimum tax for the period.

In June 2006, the FASB issued FASB Interpretation (''FIN'') No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 (''FIN 48''), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that the Company recognize in its financial statements the impact of an income tax position if that income tax position is more likely than not of being sustained on audit, based on technical merits of the income tax position. The provisions of FIN 48 are effective as of the beginning of the Company's 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

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Product Warranties

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

2. Basic and Diluted Net Income Per Common Share

The Company computes net income per share in accordance with the provisions of SFAS No. 128, Earnings Per Share. Basic net income per common share is computed by dividing the net income for the period by the weighted-average number of common shares outstanding for the period. For diluted earnings per share the weighted average shares include the incremental common shares issuable upon the exercise of stock options and warrants (using the treasury stock method). The incremental common shares for stock options and warrants are excluded from the calculation of diluted net income per share, if their effect is anti-dilutive. Diluted net income per share for the three and nine months ended March 31, 2007, excludes the effect of approximately 422,000 and 557,000 stock options in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive. Diluted net income per share for the three and nine months ended March 31, 2006, excludes the effect of approximately 1,945,000 and 1,948,000 stock options and warrants in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive.

3. Inventories

Inventories consist of the following:

	March 31, 2007 (Unaudited)	June 30, 2006
	(In thousands)	
Raw materials and component parts	$ 99	$ 110
Work-in-progress	17,839	14,564
	17,938	14,674
Less progress payments	1,168	1,616
	$ 16,770	$ 13,058

4. 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 and networks. Its data communications services segment, through GNSC, provides satellite communication services capabilities.

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

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The following is the Company's business segment information for the three and nine months ended March 31, 2007 and 2006 and as of March 31, 2007 and June 30, 2006:

	Three Months Ended		Nine Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007,	March 31, 2006
	(Unaudited) (In thousands)			
Revenues:				
Ground segment systems, networks and enterprise solutions	$ 31,818	$ 23,825	$ 77,660	$ 69,910
Data communications services	7,376	7,844	24,369	22,169
Intercompany eliminations	(77)	(628)	(472)	(1,550)
Total revenues	$ 39,117	$ 31,041	$ 101,557	$ 90,529
Income from operations:				
Ground segment systems, networks and enterprise solutions	$ 1,830	$ 528	$ 2,640	$ 1,449
Data communications services	163	488	1,512	803
Interest income	391	247	1,007	703
Intercompany eliminations	5	18	17	126
Income before income taxes	$ 2,389	$ 1,281	$ 5,176	$ 3,081
Depreciation and amortization:				
Ground segment systems, networks and enterprise solutions	$ 327	$ 313	$ 962	$ 896
Data communications services	426	458	1,314	1,445
Intercompany eliminations	(11)	(18)	(47)	(54)
Total depreciation and amortization	$ 742	$ 753	$ 2,229	$ 2,287
Expenditures for long-lived assets:				
Ground segment systems, networks and enterprise solutions	$ 4,694	$ 139	$ 5,991	$ 519
Data communications services	3,776	199	8,096	813
Total expenditures for long-lived assets	$ 8,470	$ 338	$ 14,087	$ 1,332

	March 31, 2007 (Unaudited)	June 30, 2006
	(In thousands)	
Assets:		
Ground segment systems, networks and enterprise solutions	$ 161,006	$ 145,125
Data communications services	19,726	13,256
Intercompany eliminations	(70,307)	(65,147)
Total assets	$ 110,425	$ 93,234

5. Line of Credit

On October 31, 2006, the Company entered into a secured credit facility with Citibank, N.A, which expires on November 30, 2007. The credit facility is comprised of: (1) a $25 million borrowing base line of credit (the ‘‘Line’’), which is available for standby letters of credit, commercial letters of credit and loans; (2) a bridge line of credit in the amount of $7 million, which is to support equipment purchases; and (3) a foreign exchange line in the amount of $10 million. If there are direct borrowings under the Line, the commercial letters of credit and loans may not be drawn in amounts in excess of

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$20 million. The Line bears interest at the prime rate or LIBOR plus 200 basis points, at the discretion of the Company, and is collateralized by a first priority security interest on all of the assets of the Company. The Company can be advanced up to 80% of eligible accounts receivable and 100% of unrestricted cash. The credit facility provides that the Company may borrow and apply letters of credit against the availability under the line of credit. In addition, the credit facility contains certain financial and other covenants, deposit requirements, monthly reporting provisions and other requirements. The credit facility is uncommitted and advances are subject to Citibank, N.A.’s approval. As of March 31, 2007, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately $16.3 million, which were applied against and reduced the amounts available under this credit facility.

6. Subsequent Event

On May 2, 2007, the Company acquired from Lyman Bros., Inc. (‘‘Lyman’’) substantially all of the assets and assumed certain liabilities of GlobalSat, LLC (the ‘‘Assets’’), 100% of the equity interests of Lyman Maryland Properties, LLC and Turbo Logic Associates, LLC, both Delaware limited liability companies and wholly-owned subsidiaries of Lyman (the ‘‘Companies’’). Together, the assets and the Companies comprise the GlobalSat division of Lyman. GlobalSat is a global provider of satellite-based telecommunications services. Headquartered in Metropolitan Washington D.C., it employs approximately 70 U.S. Government cleared staff worldwide and has a high concentration of recurring service revenues in the government marketplace. The GlobalSat business will operate in the data communication services segment under the name of Globecomm Services Maryland LLC and will be a wholly-owned subsidiary of the Company.

The Company acquired the GlobalSat business for a purchase price of $18.4 million in cash, subject to certain working capital adjustments. The purchase price was funded in part through a five-year $16.0 million acquisition term loan (‘‘Acquisition Loan’’) provided by Citibank, N.A. The Acquisition Loan bears interest at the prime rate or LIBOR plus 225 basis points, at the discretion of the Company, and is collateralized by a first priority security interest on all of the assets of the Company, including the GlobalSat assets. The Acquisition Loan contains certain financial and other covenants, deposit requirements, monthly reporting provisions and other requirements and can be repaid by the Company at any time without premium or penalty.

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

You should read the following discussion of our financial condition and results of operations with the consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, based on our current expectations, assumptions, estimates and projections. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as, among others, uncertain demand for our services and products due to economic and industry-specific conditions, the risks associated with operating in international markets, our dependence on a limited number of contracts for a high percentage of our revenues, and the performance of the GlobalSat business following its acquisition. These risks and others are more fully described in the ‘‘Risk Factors’’ section of this Quarterly Report and in our other filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

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

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

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

In the three months ended March 31, 2007, 54% of our revenues were generated by two customers in the government marketplace. Although the identity of customers and contracts may vary from period to period, we have been, and expect to continue to be, dependent on revenues from a small number of customers or contracts in each period in order to meet our financial goals. From time to time these customers are located in developing countries or otherwise subject to unusual risks.

Revenues related to contracts for ground segment systems, networks and enterprise solutions and data 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 direct costs. Anticipated contract losses are recognized, as they become known. Costs from ground segment systems, networks and enterprise solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor salaries. Costs from data communications services consist primarily of satellite space segment charges, voice termination costs, network operations expenses and Internet connectivity fees. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations center on a twenty-four hour a day, seven day a week basis, including personnel and related costs and depreciation. Selling and marketing expenses consist primarily of salaries, travel and living costs for sales and marketing personnel. Research and development expenses consist primarily of salaries and related overhead expenses. General and administrative expenses consist of expenses associated with our management, finance, contract and administrative functions.

Critical Accounting Policies

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

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Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin No. 104 (''SAB 104''), Revenue Recognition, for our production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. Our standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than our long-term complex production-type projects. Revenue is recognized on our standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer's contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the features or capabilities of the equipment, does not require complex software integration and interfacing and we have not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the equipment. The estimated relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, we will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues.

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

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

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

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Goodwill Impairment

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The impairment test is dependent upon estimated future cash flows of the data communication services segment. There have been no events during the nine months ended March 31, 2007 that would result in any goodwill impairment.

Deferred tax assets

In assessing the realizability of deferred tax assets, we consider 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 our ability to utilize the net operating losses in the future, we have provided a valuation allowance against the operating losses and temporary differences.

Allowances for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including our past transaction history with the customer and the creditworthiness of the customer. An assessment of the inherent risks in conducting our business with foreign customers is also made since a significant portion of our revenues is international. Management specifically analyzes accounts receivable, historical bad debts, customer concentrations, customer creditworthiness and current economic trends. If the financial condition of our customers were to deteriorate in the future, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

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

Results of Operations

Three and Nine Months Ended March 31, 2007 and 2006

Revenues from Ground Segment Systems, Networks and Enterprise Solutions. Revenues increased by $8.1 million, or 34.1%, to $31.8 million for the three months ended March 31, 2007 and increased by $8.3 million, or 11.9%, to $77.6 million for the nine months ended March 31, 2007, compared to $23.7 million and $69.4 million for the three and nine months ended March 31, 2006, respectively. The increase in revenues was primarily driven by the increase in the pre-engineered systems product line revenue in the government marketplace.

Revenues from Data Communication Services. Revenues remained consistent at $7.3 million for the three months ended March 31, 2007 and 2006 and increased by $2.8 million, or 13.0%, to

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$23.9 million for the nine months ended March 31, 2007, compared to $21.2 million for the nine months ended March 31, 2006. Although revenues were consistent for the three months ended March 31, 2007 and 2006, the revenue within the life cycle support services increased due to an increase in the government marketplace offset by a decrease in telephony services due to increased competition. The increase in the nine months ended March 31, 2007 was primarily due to an increase in life cycle support services in the government marketplace and the sale of equipment and services to a major U.S enterprise customer, partially offset by a decrease in telephony services due to increased competition.

Costs from Ground Segment Systems, Networks and Enterprise Solutions. Costs from ground segment systems, networks and enterprise solutions increased by $5.6 million, or 28.6%, to $25.2 million for the three months ended March 31, 2007 and increased by $4.7 million, or 8.1% to $62.5 million for the nine months ended March 31, 2007, compared to $19.6 million and $57.8 million for the three and nine months ended March 31, 2006, respectively. The gross margin increased to 20.7% and 19.5% for the three and nine months ended March 31, 2007 from 17.4% and 16.6% for the three and nine months ended March 31, 2006, respectively. This increase in gross margin for the three and nine months ended March 31, 2007 was mainly attributable to increased revenue related to the pre-engineered systems product line in the government marketplace, in particular one and two customers, respectively with higher than our usual gross margins.

Costs from Data Communications Services. Costs from data communications services increased by $0.3 million, or 4.4%, to $6.1 million for the three months ended March 31, 2007 and increased by $2.1 million, or 12.0%, to $19.7 million for the nine months ended March 31, 2007, compared to $5.9 million and $17.6 million for the three and nine months ended March 31, 2006, respectively. The gross margin decreased to 16.0% for the three months ended March 31, 2007 and increased to 17.7% for the nine months ended March 31, 2007, from 19.6% and 16.9% for the three and nine months ended March 31, 2006, respectively. The decrease in gross margin for the three months ended March 31, 2007 is primarily the result of lower margins in telephony services due to increased minutes termination costs and increased competition.The increase in the gross margin for the nine months ended March 31, 2007 was primarily a result of an increase in revenue in the government marketplace within life cycle support services which has higher margin than the other service offerings, partially offset by the decrease in margin in the telephony service offering. The gross margin percentage experienced in the nine months ended March 31, 2007 is higher than our historical norm and higher than the gross margin percentage expected for the remainder of fiscal year 2007.

Selling and Marketing. Selling and marketing expenses increased by $0.4 million, or 22.4%, to $2.3 million for the three months ended March 31, 2007 and increased by $0.8 million, or 16.6%, to $5.8 million for the nine months ended March 31, 2007, compared to $1.9 million and $5.0 million for the three and nine months ended March 31, 2006, respectively. The increase is a result of an increase in salary and salary related expenses for additional marketing personnel pursuing business in the government marketplace, travel and living expenses related to marketing efforts exploring new markets and expenses related to the sales office in Afghanistan.

Research and Development. Research and development expenses increased by $0.2 million, or 64.2%, to $0.4 million for the three months ended March 31, 2007 and increased by $0.4 million, or 79.0%, to $1.0 million for the nine months ended March 31, 2007, compared to $0.3 million and $0.5 million for the three and nine months ended March 31, 2006, respectively. The increase was principally due to costs associated with developing the next version of AxxSys[R] Network Management System on the ''.Net'' operating system called AxxSys[R] Orion and additional efforts enhancing the cellular hosted switch offering.

General and Administrative. General and administrative expenses increased by $0.7 million, or 27.5%, to $3.0 million for the three months ended March 31, 2007 and increased by $1.2 million, or 16.8%, to $8.4 million for the nine months ended March 31, 2007, compared to $2.4 million and $7.2 million for the three and nine months ended March 31, 2006, respectively. The increase in general and administrative expenses was due to an increase in fringes primarily due to the increase in the Company's pay for performance plan, salary increases due to an increase in headcount and an increase in bad debt expense in the data communications service business.

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Interest Income. Interest income increased by $0.1 million, or 58.3%, to $0.4 million for the three months ended March 31, 2007 and increased by $0.3 million, or 43.2%, to $1.0 million for the nine months ended March 31, 2007, compared to $0.2 million and $0.7 million for the three and nine months ended March 31, 2006, respectively, as a result of increased interest rates coupled with an increase in the balance of cash and cash equivalents.

Liquidity and Capital Resources

At March 31, 2007, we had working capital of $44.0 million, including cash and cash equivalents of $29.8 million, net accounts receivable of $26.7 million, inventories of $16.8 million, prepaid expenses and other current assets of $1.7 million, offset by $18.6 million in accounts payable, $6.4 million in deferred revenues and $5.9 million in accrued expenses and other current liabilities.

During the nine months ended March 31, 2007, we generated significant cash flow from operations, which in large part was applied to major capital improvements described below. We do not expect that capital expenditures during the fiscal year ending June 30, 2008 will be at the same levels as we have experienced this fiscal year.

Net cash provided by operating activities during the nine months ended March 31, 2007 was $13.2 million, which primarily related to net income of $5.1 million, an increase in deferred revenue of $4.7 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts, a decrease in accounts receivable of $3.7 million due to the timing of billings and collections from customers, a non-cash item representing depreciation and amortization expense of $2.2 million primarily related to the network operations center and satellite earth station equipment and an increase in accrued payroll and related fringe benefits of $0.8 million due to the timing of payroll and the increase in the company's pay for the performance plan, partially offset by an increase in inventory of $3.7 million due to the timing of shipments of certain jobs.

Net cash used in investing activities during the nine months ended March 31, 2007 was $14.1 million, which primarily related to the purchase of network operations center and teleport assets primarily for a large program that we anticipate will be in service on July 1, 2007. In addition, we are upgrading our facility to meet the requirements of our increase in business levels. We estimate an additional $3 million in capital expenditures for the remainder of the year ending June 30, 2007 primarily for the network operations center, teleport, and facility upgrade for both this large program and other requirements due to the increase in business levels. We will use our existing working capital to meet these capital expenditure requirements.

Net cash provided by financing activities during the nine months ended March 31, 2007 was $6.1 million, which related to proceeds from the exercise of stock options and warrants.

On May 2, 2007, we acquired from Lyman Bros., Inc. substantially all of the assets and the assumed certain liabilities of GlobalSat, LLC and 100% of the equity interests of Lyman Maryland Properties, LLC and Turbo Logic Associates, LLC which is collectively known as the GlobalSat business. GlobalSat is a global provider of satellite-based telecommunications services. Headquartered in Metropolitan Washington D.C., the GlobalSat business employs approximately 70 U.S. Government cleared staff worldwide and has a high concentration of recurring service revenues in the government marketplace.

Pursuant to the terms of the Purchase Agreement, we acquired the GlobalSat business for a purchase price of $18.4 million in cash, subject to certain working capital adjustments. The purchase price was funded, in part, through a five-year $16.0 million acquisition term loan (''Acquisition Loan'') provided by Citibank, N.A. The Acquisition Loan bears interest at the prime rate or LIBOR plus 225 basis points, at our discretion, and is collateralized by a first priority security interest on all of our assets, including the GlobalSat assets.

At March 31, 2007, we had a credit facility in place with Citibank, N.A, which expires on November 30, 2007. The credit facility is comprised of: (1) a $25 million borrowing base line of credit (the ‘‘Line’’), which is available for standby letters of credit, commercial letters of credit and loans; (2) a bridge line of credit in the amount of $7 million, which is to support equipment purchases; and

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(3) a foreign exchange line in the amount of $10 million. If there are direct borrowings under the Line, the commercial letters of credit and direct borrowings may not be drawn in amounts in excess of $20 million. The Line bears interest at the prime rate or LIBOR plus 200 basis points, at our discretion, and is collateralized by a first priority security interest on all of our assets. We can be advanced up to 80% of eligible accounts receivable and 100% of unrestricted cash. The credit facility provides that we may borrow and apply letters of credit against the availability under the Line. In addition, the credit facility contains certain financial and other covenants, deposit requirements, monthly reporting provisions and other requirements. The credit facility is uncommitted and advances are subject to Citibank, N.A.’s approval. As of March 31, 2007, no borrowings were outstanding under the credit facility; however, there were standby letters of credit of approximately $16.3 million, which were applied against and reduced the amounts available under the facility.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through 2009. Future minimum lease payments due on these leases through March 31, 2008 are approximately $6.8 million.

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

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
Operating leases	$ 10,340	$ 6,778	$ 3,059	$ 503	$ —
Total contractual obligations	$ 10,340	$ 6,778	$ 3,059	$ 503	$ —

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	Total Amounts Committed	Less than 1 year	1 – 3 years	4 – 5 years	More Than 5 years
Standby letters of credit	$ 16,283	$ 14,203	$ 2,080	$ —	$ —
Total commercial commitments	$ 16,283	$ 14,203	$ 2,080	$ —	$ —

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

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the ground segment systems, networks and data communications services business, the nature and timing of customer orders and the level of capital requirements related to the expansion of our service offerings. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements at least through March 31, 2008. However, we cannot assure you that there will be no unforeseen events or circumstances that would consume available resources significantly before that time. For example, future events occurring in response to the hostilities in Iraq and Afghanistan, or in connection with any armed conflict, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our products and services in the United States and internationally may impact our results of operations. Unexpected events negatively impacting international commerce, including additional conflicts in the Middle East, could deter our ability to close contracts with international customers.

Additional funds may not be available when needed and, even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common stock, which could have the effect of diluting or adversely affecting the holdings

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or rights of our existing stockholders. If adequate funds are unavailable, we may be required to delay, scale back or eliminate some of our operating activities, including, without limitation, capital expenditures, research and development activities, the timing and extent of our marketing programs, and we may be required to reduce headcount. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. Accordingly, we may utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. At March 31, 2007, we had no outstanding foreign exchange contracts.

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

Item 4. Controls and Procedures

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

(a) As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the ‘‘Exchange Act’’)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

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Part II — Other Information

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Risk Factors

A limited number of customer contracts account for a significant portion of our revenues, and the inability to replace a key customer contract or the failure of the customer to implement its plans would adversely affect our results of operations, business and financial condition.

We rely on a small number of customer contracts for a large portion of our revenue. Specifically, we have agreements with five customers to provide equipment and services, from which we expect to generate a significant portion of our revenues. We derived 54% of our revenues in the three months ended March 31, 2007 from two customers in the government marketplace. Also, we conduct a substantial proportion of our business in developing countries. If any key customer is unable to implement its business plan, the market for these customers’ services declines, political or military conditions make performance impossible or impractical or if all or any of the major customers modifies or terminates its agreement with us, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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

The success of our recent acquisition of the GlobalSat business depends, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from integrating the GlobalSat business with our business, and the failure to realize these anticipated benefits could cause our business to be materially adversely affected.

Our success in realizing these benefits and the timing of this realization depends upon our successful integration of the operations of the GlobalSat business. The integration of two independent businesses is a complex, costly and time-consuming process. The difficulties of combining the operations of the businesses include, among others:

- retaining key employees;
- bridging possible differences in cultures and management philosophies;
- consolidating corporate and administrative infrastructures and systems;
- coordinating sales and marketing functions;
- preserving our and the GlobalSat business' customer, supplier and other important relationships;
- aligning and executing on new product roadmaps;
- minimizing the diversion of management's attention from ongoing business concerns; and
- coordinating geographically separate organizations.

We acquired the GlobalSat business for $18.4 million and entered into a five-year $16 million acquisition term loan. We plan for the future cash flow of the GlobalSat division business to fund the principal and interest payments of the acquisition term loan, unless it is repaid from other financing proceeds. The GlobalSat business is generally dependant upon agreements with three customers to provide equipment and services, from which we expect to generate a significant portion of revenues relating to the GlobalSat business. If any of these three customers modifies or terminates its agreement with GlobalSat, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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We cannot assure you that our integration of the GlobalSat business will result in the realization of the full benefits that we anticipate will result from the acquisition. Any inability to integrate successfully, or a delay in integrating, the GlobalSat business could have a material adverse effect on us.

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

We derive a substantial portion of our revenues from government marketplace. This business tends to have higher gross margins than other segments of our business. A future reduction in the proportion of our business from government marketplace would negatively impact our results of operations.

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

We market and sell a substantial portion of our products and services internationally. We anticipate that international sales will continue to account for a significant portion of our total revenues for the foreseeable future with a significant portion of the international revenue coming from developing countries, including countries in areas of conflict like Afghanistan. There are a number of risks inherent in conducting our business internationally, including:

- general political and economic instability in international markets, including the hostilities in Iraq and Afghanistan, could impede our ability to deliver our products and services to customers and harm our results of operations;
- difficulties in collecting accounts receivable could adversely affect our results of operations;
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changes in regulatory requirements could restrict our ability to deliver services to our international customers, including the addition of a country to the list of sanctioned countries under the International Emergency Economic Powers Act or similar legislation;

- export restrictions, tariffs, licenses and other trade barriers could prevent us from adequately equipping our network facilities;
- differing technology standards across countries may impede our ability to integrate our products and services across international borders;
- protectionist laws and business practices favoring local competition may give unequal bargaining leverage to key vendors in countries where competition is scarce, significantly increasing our operating costs;
- increased expenses associated with marketing services in foreign countries could affect our ability to compete;
- relying on local subcontractors for installation of our products and services could adversely impact the quality of our products and services;
- difficulties in staffing and managing foreign operations could affect our ability to compete;
- complex foreign laws and treaties could affect our ability to compete; and
- potentially adverse taxes could affect our results of operations.

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

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

We derive a substantial portion of our revenues from fixed-price projects. We assume greater financial risks on a fixed-price project than on a time-and-expense based project. If we miscalculate

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the resources or time we need for these fixed-price projects, the costs of completing these projects may exceed our original estimates, which would negatively impact our results of operations.

If GNSC does not execute its business strategy or if the market for its services fails to develop or develops more slowly than we expect, our results of operations will be harmed.

GNSC's future revenues and results of operations are dependent on its execution of its business strategy and development of the market for its current and future services. GNSC has had, and we expect will continue to have, cash requirements, which have decreased and will continue to decrease our cash resources. If GNSC does not efficiently and substantially utilize its transponder space capacity and increase its level of orders, its cash requirements may increase and our results of operations will be harmed. In addition, significant capital expenditures have been required as we have built our network operation center to provide our service offerings. If our service offerings are not accepted, or if the market fails to grow, we cannot assure you that we will be able to realize an appropriate return on these capital expenditures.

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

GNSC revenues and results of operations are dependant on the infrastructure of the Network Operations Center and the Long Island International Teleport at our headquarters in Hauppauge, New York. A catastrophic event to this facility or to the infrastructure of the surrounding area would result in significant delays in restoring a majority of the data communications services capabilities. These capabilities permit us to offer an integrated suite of products and services and the incapacity of our communications infrastructure would negatively impact our ability to sell our ground segment systems and networks. This would result in the loss of revenues and adversely affect our business, results of operations and financial condition.

Our markets are highly competitive and we have many established competitors, and we may lose market share as a result.

The markets in which we operate are highly competitive and this competition could harm our ability to sell our products and services on prices and terms favorable to us. Our primary competitors in the satellite ground segment systems and networks market generally fall into two groups: (1) system integrators, like Thales, Data Path, and SED Systems, and (2) equipment manufacturers who also provide integrated systems, like General Dynamics SATCOM Technologies, Andrew Corporation, Viasat, Alcatel and ND Satcom AG.

In the end-to-end satellite-based enterprise solutions and broadcast services markets, we compete with other satellite communication companies who provide similar services, like Ascent Media, Globecast, and Convergent Media Systems. In addition, in managed network services we may compete with other communications service providers like Segovia and satellite owners like SES Americom and Intelsat. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. These competitors may have the financial resources to withstand substantial price competition, may be in a better position to endure difficult economic conditions in international markets and may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances than we do that they could use to their advantage in competitive situations.

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

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If our products and services are not accepted in developing countries with emerging markets, our revenues will be impaired.

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

- the speed at which communications infrastructure, including terrestrial microwave, coaxial cable and fiber optic communications systems, which compete with satellite-based services, is built;
- the effectiveness of our local resellers and sales representatives in marketing and selling our products and services; and
- the acceptance of our products and services by customers.

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

We have had a history of operating losses and negative cash flow. Negative cash flows may occur as we pursue our business plan and our losses may reoccur, which may strain our capital resources.

Although we have recently been profitable, we had incurred significant net losses in the past and may incur negative cash flows from operations. Our ability to maintain profitability will depend upon our ability to generate significant revenues through new profitable customer contracts and the expansion of our existing products and services, including our data communications services. We cannot assure you that we will be able to obtain new profitable customer contracts or generate significant additional revenues from those contracts or any new products or services that we introduce. In the past, we have incurred significant negative cash flows, which may reoccur if our business plan is not successful. Also, if we are unable to sustain or increase our profits on a quarterly or annual basis in the future or if our business undergoes a period of rapid growth, our operating cash flows may be negatively impacted.

Since sales of satellite communications equipment are dependent on the growth of communications networks, if market demand for these networks declines, our revenue and profitability are likely to decline.

We derive, and expect to continue to derive, a significant amount of revenues from the sale of satellite ground segment systems and networks. If the long-term growth in demand for communications networks does not continue, the market 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 revenues may decline from current levels and our results of operations may be harmed. The demand for communications networks and the products used in these networks is affected by various factors, many of which are beyond our control. For example, the uncertain general economic conditions have affected the overall rate of capital spending by many of our customers. Also, many companies have found it difficult to raise capital to finish building their communications networks and, therefore, have placed fewer orders. Past economic slowdowns resulted in a softening of demand from our customers. We cannot predict the extent to which demand will increase. Further, increased competition among satellite ground segment systems and network operators has increased pricing pressures.

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

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

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Our future performance depends on the continued service of our key technical, managerial and marketing personnel; in particular, David Hershberg and Kenneth Miller are key to our success based upon their individual knowledge of the markets in which we operate. The employment of any of our key personnel could cease at any time.

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

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

We depend on our suppliers, some of which are our sole or a limited source of supply, and the loss of these suppliers could materially adversely affect our business, results of operations and financial condition.

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

Our network may experience security breaches, which could disrupt our services.

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

If the satellite communications industry fails to continue to develop or new technology makes it obsolete, our business and financial condition will be harmed.

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

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

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

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

We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through at least March 31, 2008. 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 or acquisition of assets or a business. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If 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, capital expenditures and research and development activities and we may be required to reduce headcount. We have an effective shelf registration statement on file with the Securities and Exchange Commission covering the possible offering of us of up to $50 million of our common stock. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

Unauthorized use of our intellectual property by third parties may damage our business.

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

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

We have filed applications for trademark registration of Globecomm Systems Inc., Globecomm and GSI in the United States and various other countries, and have been granted registrations for

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

Defending against intellectual property infringement claims could be time consuming and expensive, and if we are not successful, could cause substantial expenses and disrupt our business.

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

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

Our stock price is volatile.

From April 1, 2006 through March 31, 2007, our stock price ranged from a low of $6.30 per share to a high of $11.63 per share. The market price of our common stock, like that of the securities of many telecommunications and high technology industry companies, could be subject to significant fluctuations and is likely to remain volatile based on many factors, including the following:

- quarterly variations in operating results;
- announcements of new technology, products or services by us or any of our competitors;
- changes in financial estimates or recommendations by securities analysts;
- general market conditions; or
- domestic and international economic factors unrelated to our performance.

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

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

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

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

A third party could be prevented from acquiring shares of our stock at a premium to the market price because of our anti-takeover provisions.

Various provisions with respect to votes in the election of directors, special meetings of stockholders, and advance notice requirements for stockholder proposals and director nominations of

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our amended and restated certificate of incorporation, by-laws and Section 203 of the General Corporation Law of the State of Delaware could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. In addition, we have a poison pill in place and employment provisions with our senior executives that have change of control provisions that could make an acquisition of us by a third party more difficult.

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

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

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

FCC will permit the transfer of these licenses. These approvals may make it more difficult for a third party to acquire us.

Foreign Regulations

Regulatory schemes in countries in which we may seek to provide our satellite-delivered 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 that may have a material adverse impact on our business. Either we or our local partners typically must obtain authorization from each country in which we provide our satellite-delivered 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.

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Regulation of the Internet

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

Telecommunications Taxation, Support Requirements, and Access Charges

Telecommunications carriers providing domestic services in the United States are required to contribute a portion of their gross revenues for the support of universal telecommunications services, telecommunications relay services for the deaf, and/or other regulatory fees. We are subject to some of these fees, and we may be subject to other fees or new or increased taxes and contribution requirements that could affect our profitability, particularly if we are not able to pass them through to customers for either competitive or regulatory reasons.

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

Export of Telecommunications Equipment

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

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Foreign Ownership

We may, in the future, be required to seek FCC or other government approval if foreign ownership of our stock exceeds certain specified criteria. Failure to comply with these policies could result in an order to divest the offending foreign ownership, fines, denial of license renewal and/or license revocation proceedings against the licensee by the FCC, or denial of certain contracts from other United States Government Agencies.

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

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Item 6. Exhibits

Index to Exhibits:

Exhibit No.	
2.1.1	Asset Purchase Agreement, dated as of April 23, 2007, by and between, Globecomm Systems Inc., Lyman Bros., Inc., GlobalSat, LLC and Globecomm Services Maryland LLC (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on May 8, 2007).
4.1	Term Loan Agreement, dated as of May 2, 2007, by and between Globecomm Systems Inc. and Citibank, N.A.
31.1	Chief Executive Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Chief Financial Officer Certification required by Rules 13a– 14 and 15d– 14 under the Securities Exchange Act of 1934, as amended (filed herewith).
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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SIGNATURES

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

	GLOBECOMM SYSTEMS INC. (Registrant)
Date: May 10, 2007	/s/ DAVID E. HERSHBERG David E. Hershberg Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

Date: May 10, 2007

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

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