

GLOBECOMM SYSTEMS INC
Form 10-K
September 15, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**For the fiscal year ended June 30, 2008
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**Commission File Number 000-22839
GLOBECOMM SYSTEMS INC.
(exact name of registrant as specified in its charter)**

Delaware
(State or other jurisdiction of
incorporation or organization)

11-3225567
(I.R.S. EMPLOYER
Identification No.)

**45 Oser Avenue,
Hauppauge, NY**
(Address of principal executive offices)

11788
(Zip Code)

**Registrant's telephone number, including area code: (631) 231-9800
Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
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Common Stock, \$0.001 par value	Nasdaq Global Market
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No
Based on the closing sale price on the Nasdaq Global Market on December 31, 2007, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock, \$0.001 par value per share (the Common Stock) held by non-affiliates of the registrant on such date was approximately \$226.3 million. For purposes of this calculation, only executives and directors are deemed to be affiliates of the registrant.

As of September 10, 2008, there were 20,317,220 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement of Globecomm Systems Inc. relative to the 2008 Annual Meeting of Stockholders to be held on November 20, 2008, is incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. Business

Overview

Globecomm Systems Inc., or Globecomm, is a corporation which was incorporated in Delaware in August 1994. Globecomm is a leading provider of satellite-based communications infrastructure solutions and services on a global basis. Our services are provided by our wholly-owned subsidiaries, Globecomm Network Services Corp. (GNSC), a Delaware corporation, and Globecomm Services Maryland LLC (GSM), a Delaware limited liability company. In July 2008, Cachendo LLC, a Delaware limited liability company and wholly owned subsidiary of Globecomm, was formed to operate the professional engineering services business of Globecomm.

Our goal is to provide our customers with a comprehensive suite of design, engineering, installation and integration solutions, managed network services and lifecycle support services, by employing our expertise in emerging satellite-based communication technologies. By offering both infrastructure solutions and services, we provide our customers with a complete end-to-end solution for their satellite-based communications requirements. We believe our integrated approach of combining in-house design and engineering expertise with world-class teleport and network operating centers is a competitive advantage and enables us to meet our customers' needs in a timely and cost-effective manner.

We operate through two business segments. Our infrastructure solutions segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems and networks. Our services segment, through GNSC and GSM, provides satellite communication services capabilities.

Infrastructure Solutions

Our infrastructure solutions consist of the design, engineering, integration and installation of ground segment systems and networks, which are deployed in communications networks that include a satellite component. We combine our expert engineering and design capabilities with state-of-the-art technologies and products to provide solutions for building and maintaining satellite earth stations, uplink centers, broadcast centers and Internet protocol-based (IP) communication networks. In the case of complex IP-based networks, our infrastructure solutions support a wide range of network applications and facilitate quadruple play services, comprised of video, data, voice and wireless communications.

A key component of our infrastructure solutions is our product line of pre-engineered fixed and mobile/transportable satellite terminals and network management systems, which are marketed under the Summit and Explorer brands. These products utilize highly integrated electronics to assure high reliability and rapid response and to provide ease of operation in a low cost, small and lightweight format. Our network management software, which is marketed under the AxxSys® brand, is designed for management and control of third-party satellite and terrestrial-based network equipment and can be configured to communicate with serial or discrete monitors and control interfaces offered by major third-party vendors.

Services

Our services business consists of managed network services and lifecycle support services for a broad variety of communications applications. Both of these services can be offered as part of our infrastructure solutions or on a stand-alone basis and are typically provided under multi-year contracts.

Our managed network services include content distribution, Internet and data and IP telephony services, and can be offered on either a standardized or customized basis to best meet our customers' needs. Our managed network services leverage our world class infrastructure, including our teleports, 24/7 Network Operations Centers (NOCs) and data centers located in Hauppauge, New York and Laurel, Maryland. These facilities have Department of Defense (DoD) facility clearance and have multiple connections to the public switched telephone network (PSTN), multiple redundant fiber rings and emergency backup power systems.

Our life cycle support services include installation, network monitoring, help desk, maintenance and professional engineering services. Beginning in fiscal 2009, our professional engineering services will be provided by our wholly owned subsidiary Cachendo LLC. We leverage these services by utilizing our facilities infrastructure, engineering personnel and network of skilled technicians. We have maintenance partners globally that provide us access to skilled technicians.

Communications Infrastructure

We built and own the teleport facility, the Kenneth A. Miller International Teleport, located at our headquarters in Hauppauge, New York and own a teleport facility at our GSM facility in Laurel, Maryland. We are a member of the World Teleport Association (WTA). Our teleports are designed to meet stringent requirements for high-speed data communications. The teleports are used to transmit and receive signals from satellites positioned to serve customers in Latin America, the United States, Canada, Europe, the Middle East and Africa. Our teleports use redundant critical systems and uninterruptible power supplies with back-up power generation.

We also lease teleport services in: Los Angeles and Hong Kong to transmit and receive signals from satellites positioned to serve customers in the Eastern Asia and Pacific Rim region; in Poland to transmit and receive signals from satellites positioned over Eastern Europe; and in Kuwait to transmit and receive signals from satellites positioned over Central Asia. Connection to the United States Internet backbone in Los Angeles is achieved through leased fiber optic circuits.

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

We have built and staff network operation centers, or NOCs, to manage customer circuits at both our Hauppauge, New York, and Laurel, Maryland facilities. The NOCs operate twenty-four hours per day, seven days per week to monitor customer circuits, respond to customer inquiries and initiate new services. Customers can purchase or lease from us, as a part of their service, the equipment needed at the customers' locations to transmit and receive the satellite signals. We also offer installation and maintenance services for this equipment.

Comprehensive Solutions

Our comprehensive solutions and services fit within the following categories: pre-engineered systems; systems design and integration services; managed network services; and life cycle support services.

Our Pre-Engineered Systems

Our pre-engineered systems product line includes a line of a fixed satellite terminal products under the Summit[®] brand, and mobile/transportable satellite terminal products under the Explorer[®] brand. Summit satellite terminals have antenna apertures from sub meter to 21 meter in diameter using pre-engineered building blocks that assure high reliability and rapid response. Explorer satellite terminals have antenna apertures from sub meter to 3 meter in diameter using highly integrated electronics in order to provide ease of operation, low cost, light weight and small size. Our pre-engineered systems also include a line of AxxSys network management systems designed for management and control of satellite-terrestrial networks and include flexible interface devices that can be configured to communicate with satellite communications equipment and networking equipment from various manufacturers. The following details our products in this category.

Summit[®] Modular Building Block Earth Station MBB 2001. ^â This satellite terminal provides point-to-point high-capacity data links and hubs for satellite networks. Generally, all electronics are housed in an indoor equipment enclosure.

Summit[®] Commercial Terminal CTF 2001. ^â This family of satellite terminals encompasses a range of general purpose, medium-capacity satellite terminals, and is principally used by corporate, common carrier and government networks. Generally, all radio frequency electronics are housed in weatherproof enclosures mounted on the antenna. The satellite modem is housed in an indoor equipment enclosure.

Summit[®] Compact Earth Station CES 2001. ^â We designed this family of digital satellite terminals to be used principally to provide limited capacity to areas with limited or no telecommunications infrastructure. These satellite terminals integrate radio frequency and satellite modem components into one antenna mounted package.

Auto-Explorer Fly-Away Satellite Terminals. We designed this family of fly-away satellite terminals for ease of operation by non-satellite personnel by incorporating automatic satellite acquisition technology. These satellite terminals include an integrated electronics package designed to incorporate the radio frequency, monitor and control and satellite modem components into an outdoor mounted package. This family of satellite terminals is designed for use in military tactical environments and is tested and qualified for the appropriate military environmental standards.

Explorer MIL-COTS HMMWV Transportable Satellite Terminals. We designed this family of militarized transportable satellite terminals primarily for United States and international government customers. This transportable system group is comprised of transportable earth stations designed to be quickly deployed and operated anywhere in the world in military tactical environments. The latest model is a HMMWV (High-Mobility Multipurpose Wheeled Vehicle) mounted satellite terminal that incorporates the latest commercial off the shelf, or COTS, satellite equipment technology that meet the stringent requirements of military tactical operations. Our pre-engineered systems also include a line of network management systems designed for management and control of satellite terrestrial networks including equipment and systems from various manufacturers by providing flexible interface devices that can be configured to communicate with any serial or discrete monitor and control interface.

AxxSys[®] Network Management Systems. We designed this family of computer-based network management systems to monitor and control satellite communication equipment and satellite terminal networks. AxxSys-based network management systems provide status reporting locally or remotely and provide the ability to manage distributed satellite communications networks on a global basis. We introduced AxxSys Orion in fiscal 2007 which monitors and controls all of the terrestrial elements of a satellite communications network. This includes the ability to manage other network elements, such as, routers, microwave, fiber and wireless subsystems. Deployed over an industry-standard IP network, it is capable of monitoring and controlling from dozens to thousands of devices. We are currently focusing on continuing the development of AxxSys network management systems. Network management systems are key to simplifying operations and maintenance of satellite-based networks and, therefore, add value to the systems and networks we integrate.

SpyGlass Carrier Monitoring Systems.[®] We designed this family of computer-based carrier monitoring tools for service providers who need to monitor and manage their transmissions to ensure service reliability and availability. Our SpyGlass[®] family of carrier monitoring tools integrates with the AxxSys network management system to provide ease of operation.

Our Systems Design and Integration Services

We design, integrate, install, test and commission facilities and complex networks to meet the needs of our customers. Our custom systems design and integration services are largely focused on requirements for satellite earth stations, uplink centers, broadcast centers and next generation IP based networks. This segment of our business is based on our core engineering expertise in satellite earth stations and network design, broadcast engineering, Internet protocol network engineering and network management system design.

Our Managed Network Services

At Globecomm we tailor our managed network services to meet customer needs by offering standardized services for various communication applications. Our standardized services may be sold separately or may be used as building blocks as a part of a custom-engineered solution. We leverage our expertise in satellite communications, Internet protocol, communications networks and information technology in designing our custom-engineered solutions. Our managed network service offerings support content distribution, Internet and data and IP telephony.

Globally, telecommunications networks are moving rapidly toward Internet protocol-based networks and services based on the lower cost of implementation and the flexibility these networks offer. Satellite-based communications complement this trend as many of the regions in the world lack the next generation terrestrial networks required to accommodate the rapid and reliable transmission of the vast amounts of information underlying the growth in traffic. Even in a well connected area of the globe, satellite communications offer a diverse network path in support of disaster recovery and network augmentation.

We are a network service provider that offers next generation network solutions to communication service providers, commercial enterprises, broadcasters, content providers and governments and government related entities around the world. We combine satellite and terrestrial communications networks to provide customers high-speed access services to the United States Internet backbone, their corporate headquarters or government offices, as well as the public switched telephone network. We are a licensed international voice carrier and have bilateral agreements with a number of international telecommunication operators for the origination and termination of voice traffic. We currently have customers for which we are providing such network services in the United States, Europe, South America, Africa, the Middle East and Asia.

Our solutions continue to evolve based on changes in markets and technology. These solution sets leverage our ability to provide one-stop turnkey managed solutions including communications infrastructure, network services and related back office services.

Internet and Data Solutions. Our global high-speed Internet access and global connectivity services are marketed under the Access-PlusSM brand name. As part of this offering, we offer point to point and point to multipoint Internet and data connectivity for service providers, broadcasters, government and enterprise customers. Solutions include two way satellite connectivity as well as one-way satellite connectivity with terrestrial return. Shared and committed information rate services are available and all services are offered with encryption options. The scope of these services range widely, and the network can be serviced out of any or our teleports, or other teleports or uplinks as appropriate.

Access-PlusSM Connectivity solutions provide a managed satellite terrestrial network services allowing customers to outsource entire satellite-terrestrial based communication networks. We are capable of providing a one stop shopping solution including Internet Access, data connectivity, licensing, and facilities construction anywhere in the world.

Access-PlusSM Restoral solutions provide the ability to restore communications networks when terrestrial-based services are interrupted. This IP-based satellite overlay solution enables dynamic redundancy to frame relay and other terrestrial services and is well suited for customers with multiple locations. We also offer call center restoral solutions as a subcontractor to Agility Recovery Solution in the United States. This service provides protection against communication and facility outages. Once an emergency is declared, we can provide communication restoral services within 48 hours. We provide the satellite-terrestrial network behind Agility's offerings and in other cases provide disaster recovery solutions directly to end customers.

Access-PlusSM Surveillance solutions including our Supervisory, Control and Data Acquisition (SCADA) service provides a means to monitor critical infrastructure or to provide security for facilities and personnel. These satellite-based solutions leverage low cost Internet protocol VSAT technology to monitor oil/gas pipelines, electrical power generation and distribution facilities and other critical infrastructure spread over large geographic areas, or to provide surveillance capability using sophisticated video cameras with capability for 360 degree viewing remotely. We provide monitoring services for critical infrastructure for our customers who want to outsource these services or need us to back up their own monitoring center.

Access-PlusSM VSAT solutions line includes a variety of very small aperture, or VSAT, TDMA solutions involving the provisioning of both standard and customized two-way VSAT services for Internet access, VoIP, and terrestrial network backup services. Our VSAT hub at the Kenneth A. Miller International Teleport coupled with the extension of our MPLS backbone to various teleports globally, provides us with global VSAT coverage and the flexibility to provide a wide range of services including Internet access and voice termination. Our VSAT solutions typically involve custom network design for specific customer applications in order to maximize bandwidth efficiencies.

As part of our Access-PlusSM managed solution set we have developed a variety of complex next generation satellite-based networks for both countrywide intercity communications leveraging both satellite and terrestrial means. These complex next generation networks use Internet protocol-based network systems and equipment to provide flexibility in service creation and the ability to leverage a common communications infrastructure as the platform for all services. These projects include the engineering, integration and deployment of complete turnkey solutions comprised of IP-based microwave, cellular, broadband wireless, satellite and fiber optic networks along with international gateway access. We also provide ongoing operations and maintenance of these networks, Internet services and international voice origination and termination services.

Content Distribution Solutions. Our content delivery services, marketed under the SkyborneSM brand name offer end-to-end content based solutions for master control and uplinking services.

SkyborneSM Enterprise solutions provide video broadcast services to large enterprises in the United States as well as to content owners. Our value proposition includes the ability to evolve to next generation IP-based video broadcast services and high quality customer account management. We have created next generation IP-based solutions to allow our customers to evolve their networks to interactive distance learning, merchandizing, corporate communications and video on demand services.

SkyborneSM Direct to Home Platform provide all the functionality required for new service providers to enter the direct to home television with a minimal capital investment. Our facilities at the Kenneth A. Miller International Teleport include television program acquisition (i.e., satellite downlink acquisition, as well as terrestrial program acquisition), program coding, program multiplexing and transmission, subscriber management and conditional access as required to provide such services.

SkyborneSMBroadcast solutions offers point to multipoint content delivery of multimedia content supporting applications such as United States satellite-based program acquisition, storage and playout to support the launch of new service offerings by IPTV providers and cable headend distribution via satellite. Our teleport facilities, fiber connectivity and twenty-four hour per day by seven-day per week network operations center allow us to provide ad hoc video services on a wide range of satellites.

Telephony Solutions. Our telephony services, marketed under the SatCellSM brand name, allow for economical managed voice termination and origination services.

SatCellSM Packet Voice (Clear Packet) solution provides voice backhaul via satellite enabling toll quality (i.e., carrier class) voice services for locations where terrestrial fiber is not available or where it does not meet customer cost or quality requirements. We call these Clear Packet voice solutions because we connect at the customer's end to a toll quality local switched voice infrastructure and we connect at our end (i.e., United States termination/origination point) to toll quality public switched infrastructure from United States carriers. Our offering provides backbone connectivity services for service providers in order to connect public switched telephone networks to international long distance carriers through a VoIP-based satellite link. This allows service providers overseas to contract with us to act as their gateway to a large number of international carriers. We are a licensed operator that provides voice termination services around the world.

SatCellSM Cellular Hosted Soft Switch solution for telephony providers enable cellular coverage in locations otherwise not economical to connect using traditional terrestrial means. SatCell allows telephony providers to expand GSM or CDMA networks economically, or to initiate service in new service areas with a minimal capital outlay. We provide outsourced hosted soft switch services to rural telecommunication companies, in the United States, that allow them to take advantage of a shared platform. We currently have a patent pending for this hosted soft switch service.

Our Life Cycle Support Services

Our life cycle support services include installation, network monitoring, help desk, maintenance and professional engineering services. We are able to offer these life cycle support services by leveraging our facilities infrastructure, including our teleports, our NOCs, and our data centers, as well as our personnel and network of skilled technicians. We have global maintenance partners that provide us access to skilled technicians. We provide these services on either a stand-alone basis, or bundled with infrastructure solutions.

Network Monitoring and Help Desk solutions provide twenty-four hours per day by seven-day per week monitoring of satellite and terrestrial network systems and networks. Status and alarm monitoring coupled with our help desk services provides our customers with the ability to outsource monitoring of their networks. We provide customers with network trouble shooting and problem resolution support with escalation to technical resources on duty for problems requiring detailed technical knowledge of equipment, systems and/or networking. We utilize a remedy-based trouble ticket system to track problems through conclusion. Customized reports are issued by our help desk to meet our customers' demand.

Installation and Maintenance solutions provide installation and maintenance services of satellite and terrestrial infrastructure at customer locations anywhere in the world. We have an established worldwide network of field technicians to provide on-site services for customer networks. These technicians enable us to provide cost-effective quick-response services for installation and required maintenance.

Professional Engineering solutions provide engineering expertise and hands-on support for co-located equipment and engineering and design support for proposal creation and network architecture design. We also provide professional engineering services for customers who need our engineering specialists and program managers to complement their internal staff.

Sales and Marketing

We market our products and services to communications service providers, government and government related entities (U.S. and foreign), commercial enterprises, broadcasters and other media and content providers. We have structured our sales and marketing approach to respond effectively to the opportunities in these markets. Our marketing activities are organized regionally, as well as on

an industry-specific basis. We use both direct and indirect sales channels to market our services and products. We also focus on industry-specific markets, including government, broadcast and commercial enterprises.

Our corporate sales offices sell and market our products and services in the United States and internationally. We have corporate sales offices in: Maryland and Washington D.C. to service the U.S. Government; Dubai, United Arab Emirates to service the Middle East and Eastern Asia; Hong Kong to service the Asia Pacific region including China and India; and Afghanistan to service Afghanistan. The corporate sales offices work with the regional business teams, the GNSC service team and the GSM service team to prepare proposals and negotiate contracts.

Our regional business teams, located in Hauppauge, New York, and our GSM team located in Laurel, Maryland sell and market our products and services in concert with the corporate sales offices. These regional business teams are responsible for orders in the regions and/or markets to which they are assigned, as well as for the delivery of our products and services and for account management of our existing customers. Currently, we have regional business teams responsible for the Americas, the Asia Pacific region and the Eastern Atlantic Region (Africa, the Middle East and Europe). We also have a business team dedicated to the government marketplace, as well as a GSM service team which is focused largely on the U.S. government marketplace. In addition, we have expert teams who are focused on leveraging our know-how in IP networking, broadcast technology, pre-engineered systems, network management systems and network services to provide added value to our products, services and solutions.

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

We use direct mailings, print advertising to targeted markets and trade publications to enhance awareness and acquire leads for our direct and indirect sales teams. We create brand awareness by participating in industry trade shows sponsored by organizations like the International Telecommunications Union, the National Association of Broadcasters, Armed Forces Communications and Electronics Association, Communication Media Management Association and other industry associations. We also provide marketing information on our web site and conduct joint marketing programs with sales representatives in various regions to reach new customers.

Acquisition

On May 2, 2007, we acquired the GlobalSat division of Lyman Bros., Inc. GlobalSat is a global provider of satellite-based telecommunications services headquartered in Laurel, Maryland. The acquisition of GlobalSat significantly increased our recurring revenue base, particularly in the government marketplace and also provides us with a second DoD-cleared facility comprised of a teleport, NOC and data center and strengthens our management team. The GlobalSat business operates in the services segment of our business under GSM.

Customers

We have established a diversified base of customers in a variety of industries. Our customers include communications service providers, government and government related entities (U.S. and foreign), commercial enterprises, broadcasters and other media and content providers. We typically rely upon a small number of customers for a large portion of our revenues. We derived 19% of our revenues in the year ended June 30, 2008 from a U.S. Government agency. We expect that in the near term a significant portion of our revenues will continue to be derived from a limited number of customers (the identity of whom may vary from year to year) as we seek to expand our business and customer base.

Backlog

At June 30, 2008, our backlog was approximately \$146.8 million compared to approximately \$141.2 million at June 30, 2007. We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped where installation has not been completed and final acceptance has not been received from the customer. Our backlog at any given time is not necessarily indicative of future period revenues. A substantial portion of our backlog is comprised of large orders, the cancellation of any of which could have a material adverse effect on our operating results. For example, at June 30, 2008, \$93.7 million, or approximately 63.8%, of our backlog represented contracts with six customers. We cannot assure you that these contracts or any others in our backlog will not be cancelled or revised. See the section entitled Risk Factors.

Product Design, Assembly and Testing

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

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

Research and Development

We have developed internal research and development resources in Internet protocol networks, content delivery networks, broadcast systems, network management systems and pre-engineered systems. The costs of developing new technologies are funded partially by the investments made by us and partially by development funded by specific customer program requirements. This approach provides us with a cost-effective means to develop new technology, while minimizing our direct research and development expenditures. Furthermore, we believe that our research and development capabilities allow us to offer added value in developing solutions for our customers, while at the same time we maintain the opportunity to develop products through our strategic supplier relationships. Our internal research and development efforts generally focus on the development of products and services not available from other suppliers to the industry. Current efforts are focused on continued development of our software-based distributed core network to support our wireless hosted switch service offering for our service provider customers, development of multimedia broadcast data center solutions for direct to home, TV to mobile devices and IPTV applications and enhancements to pre-engineered AxxSys network management systems for all our earth terminal and network customers and pre-engineered Explorer satellite systems for our government customers. For the years ended June 30, 2008, 2007 and 2006, we have incurred approximately \$1.9 million, \$1.5 million, and \$1.1 million, respectively, in internal research and development expenses.

Competition

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

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

Our primary competitors in the infrastructure solutions market generally fall into two groups: (1) system integrators such as Thales, Data Path and SED Systems and (2) equipment manufacturers who also provide integrated systems, such as Viasat, General Dynamics SATCOM Technologies, 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, such as Ascent Media, Globecast and Convergent Media Systems. In addition, in managed network services we may compete with other communications services providers such as Segovia and Verizon, 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.

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

Intellectual Property

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

We currently have been granted six patents in the United States, one for remote access to the Internet using satellites, another for satellite communication with automatic frequency control, another for a monitor and control system for satellite communications networks and the like, another for implementing facsimile and data communications using Internet protocols, and two for a dish antenna kit including alignment tool. We have one other patent pending in the United States for a distributed satellite-based cellular network. We currently have one Patent Cooperation Treaty patent application pending for implementing facsimile and data communications using Internet protocols. We also intend to seek additional patents on our technology, if appropriate. We have received trademark registration for Globecomm Systems Inc. in the United States, the European Community, Russia and the People's Republic of China; and for GSI in the United States and Russia. We have also received trademark registrations in the United States for MBB2001, CTF 2001, CES 2001 and AxxSys, which relate to our pre-engineered systems; for SkyBorne, relating to our broadcasting services; for the GSI logo; and for various other marks related to our products and services. We have other trademarks and service marks pending and intend to seek registration of other trademarks and service marks in the future.

Government Regulations

Operations and Use of Satellites

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communications Commission, or FCC, licensed teleports in Hauppauge, New York, and Laurel, Maryland, subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of the FCC. Pursuant to the FCC Act and FCC rules and regulations, we have obtained or applied for, and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our teleports. We have also obtained and maintain authorization issued under Section 214 of the FCC Act to act as a telecommunications carrier, which authorization also extends to GNSC. These licenses should be renewed by the FCC in the normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that additional licenses will be granted by the FCC when our existing licenses expire, nor can we assure you that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses.

We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our teleports. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our teleports.

The licenses and authorizations held by Globecomm for the licensed teleport in Hauppauge, New York, extend to GNSC and GNSC currently provides services in accordance with the requirements of the Globecomm licenses and

authorizations. GNSC and GSM may in the future seek to obtain licenses and/or authorizations to provide services in their own names; however, we cannot guarantee that such additional licenses and authorizations will be granted by the FCC.

Common Carrier Regulation

We currently provide services to our customers on a private carrier and on a common carrier basis. Our operations as a common carrier require us to comply with the FCC's requirements for common carriers. These requirements include, but are not limited to, providing our rates and service terms, being forbidden from unjust and unreasonable discrimination among customers, notifying the FCC before discontinuing service and complying with FCC equal employment opportunity regulations and reporting requirements.

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

Foreign Ownership

The FCC Act and FCC regulations impose restrictions on foreign ownership of our teleports. These requirements generally forbid more than 20% ownership or control of an FCC licensee by non-United States citizens and more than 25% ownership of a licensee's parent by non-United States citizens. The FCC may authorize foreign ownership in the licensee's parent in excess of these percentages. Under current policies, the FCC has granted these authorizations where the applicant does not control monopoly or bottleneck facilities and the foreign owners are citizens of countries that are members of the World Trade Organization or provide equivalent competitive opportunities to United States citizens.

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

Foreign Regulations

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

Regulation of the Internet

Our Internet operations (other than the operation of a teleport) are not currently subject to direct government regulation in the United States or most other countries, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues like user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications.

We anticipate that a substantial portion of our Internet operations will be carried out in countries which may impose greater regulation of the content of information coming into their country than that which is generally applicable in the United States. Examples of this include privacy regulations in Europe and content restrictions in countries, such as the 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 otherwise negatively affect our business. In addition, the applicability to the Internet of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel and personal privacy is uncertain. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Changes to these laws

intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace. These changes could reduce demand for our products and services or could increase our cost of doing business as a result of costs of litigation or increased product development costs.

Telecommunications Taxation, Support Requirements and Access Charges

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 to new or increased taxes and contribution requirements that could affect our profitability, particularly if we are not able to pass them through to customers for either competitive or regulatory reasons.

Broadband Internet access services provided by telephone companies are currently classified as information services under the Communications Act and therefore not considered a telecommunications service subject to payment of access charges to local telephone companies in the United States. Should this situation change or other charges be imposed, the increased cost to our customers who use telephone company provided facilities to connect with our satellite facilities could discourage the demand for our services. Likewise, the demand for our services in other countries could be affected by the availability and cost of local telephone or other telecommunications services required to connect with our facilities in those countries.

Export of Telecommunications Equipment

The sale of our products and services outside the United States is subject to compliance with the regulations of the United States Export Administration and, in certain instances, 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 or implement our services in some countries, these products or services must satisfy the technical requirements of the particular country. If we were unable to comply with these requirements with respect to a significant quantity of our products, our sales in those countries could be restricted, which could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of June 30, 2008, we had 316 full-time employees, including 163 in engineering and program management, 83 in the manufacturing, operations support and network operations, 28 in sales and marketing and 42 in management and administration. Our employees are not covered by any collective bargaining agreements. We believe that our relations with our employees are good.

Financial Information About Geographic Areas

Revenues from foreign sales as a percentage of total revenues for each of the three years in the period ended June 30, 2008 are set forth in Note 15 of the Notes to Consolidated Financial Statements. Revenue for the year ended June 30, 2008 included a contract with a leading provider of telecommunication services in Asia which accounted for approximately 8% of revenue.

Financial Information About Business Segments

The sales and operating profits of each business segment and the identifiable assets attributable to each business segment for each of the three years in the period ended June 30, 2008 are set forth in Note 14 of the Notes to Consolidated Financial Statements.

Available information

We maintain an Internet website at www.globecommsystems.com where our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, any amendments to these reports and all other SEC documents are available without charge, as soon as reasonably practicable following the time that they are filed with or furnished to the SEC. Information contained on our website does not constitute a part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

Risks Related to Our Business

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 six customers to provide equipment and services, from which we expect to generate a significant portion of our revenues. We derived 19% of our revenues in the year ended June 30, 2008 from a U.S. Government agency. If any key customer is unable to implement its business plan, the market for these customers' services declines, political or military conditions make performance impossible or if all or any of the major customers modifies or terminates its agreement with us, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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

We derive a substantial portion of our revenues from government marketplace. In the year ended June 30, 2008, we derived 56% of our consolidated revenues from the government marketplace. This business tends to have higher gross margins than other markets of our business. A future reduction in the proportion of our business from government marketplace would negatively impact our results of operations.

There are a number of other risks associated with the government marketplace, which include, purchasing decisions of agencies are subject to political influence, contracts are subject to cancellation if government funding becomes unavailable, and unsuccessful bidders may challenge contracts we are awarded which can lead to increased costs, delays and possible loss of the contract.

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;

changes in regulatory requirements could restrict our ability to deliver services to our international customers; including the addition of a country to the list of sanctioned countries under the International Emergency Economic Powers Act or similar legislation;

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

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

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

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

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

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

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

potentially adverse taxes could affect our results of operations.

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

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

We derive a substantial portion of our revenues from fixed-price projects. We assume greater financial risks on a fixed-price project than on a time-and-expense based project. If we miscalculate the resources or time we need for these fixed-price projects, the costs of completing these projects may exceed our original estimates, which would negatively impact our financial condition and results of operations.

Our service revenue has increased as a percentage of total revenue and if our service revenue decreases or margins decrease, our results of operations will be harmed.

GNSC and GSM's future revenues and results of operations are dependent on the development of the market for its current and future services. The service business tends to have higher gross margins than our infrastructure solutions business. A future reduction in the proportion of our services business would negatively impact our results of operations.

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

GNSC's revenues and results of operations are dependant on the infrastructure of the network operations center and the Kenneth A. Miller International Teleport at our headquarters in Hauppauge, New York. Similarly, GSM's revenues and results of operations are dependant on the infrastructure of the network operations center and teleport at our Laurel, Maryland facility. A catastrophic event to either of these facilities or to the infrastructure of the surrounding areas would result in significant delays in restoring a majority of the services capabilities. These capabilities permit us to offer an integrated suite of products and services and the incapacity of our communications infrastructure would negatively impact our ability to sell our infrastructure solutions. This would result in the loss of revenues and adversely affect our business, results of operations and financial condition.

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

The markets in which we operate are highly competitive and this competition could harm our ability to sell our products and services on prices and terms favorable to us. Our primary competitors in the infrastructure solutions market generally fall into two groups: (1) system integrators, such as Thales, Data Path, and SED Systems, and (2) equipment manufacturers who also provide integrated systems, such as General Dynamics SATCOM Technologies, 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, such as Ascent Media, Globecast, and Convergent Media Systems. In addition, in managed network services we may compete with other communications service providers such as Segovia and Verizon 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.

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

The success of our acquisition of the GlobalSat business, which is operated by GSM, is generally dependent upon agreements with three customers to provide equipment and services, from which we expect to generate a significant portion of revenues relating to the GlobalSat business. If any of these three customers modifies or terminates its agreement with GSM, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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

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

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

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

the acceptance of our products and services by customers.

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

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

We derive, and expect to continue to derive, a significant amount of revenues from the sale of satellite infrastructure solutions. If the long-term growth in demand for communications networks declines, the demand for our infrastructure solutions may decline or grow more slowly than we expect. As a result, we may not be able to grow our business, our revenues may decline from current levels and our results of operations may be harmed. The demand for communications networks and the products used in these networks is affected by various factors, many of which are beyond our control. For example, the uncertain general economic conditions, such as those which exist at the current time, 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 manufacturers has increased pricing pressures.

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

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

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

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

In the delivery of our services, we lease space segment from various satellite transponder vendors. The damage or loss of any of the satellites used by us, or the temporary or permanent malfunction of any of the satellites upon which we rely, would likely result

in the interruption of our satellite-based communications services. This interruption could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

We currently have been granted six patents and a provisional patent application pending in the United States. We currently have one Patent Cooperation Treaty patent application pending. We also intend to seek further patents on our technology, if appropriate. We cannot assure you that patents will be issued for any of our pending or future patent applications or that any claims allowed from such applications will be of sufficient scope, or be issued in all countries where our products and services can be sold, to provide meaningful protection or any commercial advantage to us.

Also, our competitors may be able to design around our patents. The laws of some foreign countries in which our products and services are or may be developed, manufactured or sold may not protect our products and services or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products and services more likely.

We have filed applications for trademark registration of Globecomm Systems Inc., Globecomm and GSI in the United States and various other countries, and have been granted registrations for some of these terms in the United States, Europe and Russia. We have various other trademarks and service marks registered or pending for registration in the United States and in other countries and may seek registration of other trademarks and service marks in the future. We cannot assure you that 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 July 1, 2007 through June 30, 2008, our stock price ranged from a low of \$7.77 per share to a high of \$16.49 per share. The market price of our common stock, like that of the securities of many telecommunications and high technology industry companies, could be subject to significant fluctuations and is likely to remain volatile based on many factors, including the following:

quarterly variations in operating results;

announcements of new technology, products or services by us or any of our competitors;

changes in financial estimates or recommendations by securities analysts;

general market conditions; or

domestic and international economic factors unrelated to our performance.

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

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

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

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

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

Various provisions with respect to votes in the election of directors, special meetings of stockholders, and advance notice requirements for stockholder proposals and director nominations of our amended and restated certificate of incorporation, by-laws and

Section 203 of the General 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 teleports in Hauppauge, New York, and Laurel, Maryland subject to the FCC Act, and the rules and regulations of FCC. We cannot guarantee that the FCC will grant renewals 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 teleports. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our teleports. In addition, prior to a third party acquisition of us, we would need to seek approval from the FCC to transfer the radio transmission licenses we have obtained to the third party upon the consummation of the acquisition. However, we cannot assure you that the FCC will permit the transfer of these licenses. These approvals may make it more difficult for a third party to acquire us.

Foreign Regulations

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

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.

Broadband Internet access services provided by telephone companies are currently classified as Information Services under the Communications Act and therefore not considered a telecommunications service subject to payment of access charges to local telephone companies in the United States. Should this situation change or other charges be imposed, the increased cost to our customers who use telephone-company provided facilities to connect with our satellite facilities could discourage the demand for our services. Likewise, the demand for our services in other countries could be affected by the availability and cost of local telephone or other telecommunications services required to connect with our facilities in those countries.

Export of Telecommunications Equipment

The sale of our infrastructure solutions 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.

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 1B. Unresolved Staff Comments.

None.

Item 2. Properties

We own a facility containing approximately 122,000 square feet of space on approximately seven acres located at 45 Oser Avenue, Hauppauge, New York. This facility houses our principal offices, teleport facility and production facilities, as well as the offices and network operations center of GNCS. We also own a facility containing approximately 20,000 square feet of space on approximately three acres located in Laurel, Maryland, which houses the teleport facility and network operations center of GSM. We lease warehouse space in Hauppauge, New York and rent office space in Laurel, Maryland, Washington D.C., the United Kingdom, United Arab Emirates, Hong Kong and Afghanistan. We believe that our facilities are adequate for our current needs and for the foreseeable future; we also expect that suitable additional space will be available as needed.

Item 3. Legal Proceedings

None.

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

None.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is quoted on the Nasdaq Global Market under the symbol GCOM. The quarterly high and low sales prices of our common stock for fiscal 2008 and 2007 are as follows:

	High	Low
2008		
Quarter ended September 30, 2007	\$ 14.96	\$ 11.37
Quarter ended December 31, 2007	16.49	9.28
Quarter ended March 31, 2008	12.00	7.77
Quarter ended June 30, 2008	10.53	8.20
2007		
Quarter ended September 30, 2006	8.91	6.30
Quarter ended December 31, 2006	9.70	8.02
Quarter ended March 31, 2007	11.63	8.85
Quarter ended June 30, 2007	15.05	10.17

At September 10, 2008, there were approximately 4,700 stockholders of record of our common stock, as shown in the records of our transfer agent.

At the close of the Nasdaq Global Market on September 10, 2008, our market price per share was \$10.01.

As of June 30, 2008, we had not declared or paid dividends on our common stock since inception and we do not expect to pay dividends in the foreseeable future.

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

Equity Compensation Plan Information as of June 30, 2008

PLAN CATEGORY	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plan approved by security holders	1,655,373	\$ 8.38	609,400
Equity compensation plans not approved by security holders			
Total	1,655,373	\$ 8.38	609,400

Performance Graph

Set forth below is a graph comparing the cumulative total stockholder return, assuming dividend reinvestment of \$100 invested in the Company's common stock on June 30, 2003 through June 30, 2008 with the cumulative total return, assuming dividend reinvestment of \$100 invested in the Nasdaq Global Market (U.S.) Index and a Self Constructed Peer Group Index. The peer group consists of the following companies: Comtech Telecommunications Corp., EMS Technologies, Inc., ViaSat, Inc., and Telecommunication Systems Inc. In current report we added Telecommunication Systems Inc. to Peer Group(2) and removed Radyne Corporation to our peer group because Radyne Corporation was acquired and is now part of a larger corporation which is not consider a peer.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Globecomm Systems Inc., The NASDAQ Composite Index
And Two Peer Groups

* \$100 invested
on 6/30/03 in
stock and
index-including
reinvestment of
dividends.

Fiscal year
ending June 30.

Item 6. Selected Financial Data

Our selected consolidated financial data as of and for each of the five years in the period ended June 30, 2008 have been derived from our audited consolidated financial statements. EBITDA represents net income (loss) before interest income, interest expense, provision for income taxes, depreciation and amortization expense, gain on sale of investment, gain on sale of available-for-sale securities and gain on liquidation of foreign subsidiary. EBITDA does not represent cash flows defined by accounting principles generally accepted in the United States and does not necessarily indicate that our cash flows are sufficient to fund all of our cash needs. We disclose EBITDA since it is a financial measure commonly used in our industry. EBITDA is not meant to be considered a substitute or replacement for net income (loss) as prepared in accordance with accounting principles generally accepted in the United States. EBITDA may not be comparable to other similarly titled measures of other companies. We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped where installation has not been completed and final acceptance has not been received from the customer. Our backlog at any given time is not necessarily indicative of future period revenues.

Selected Financial Data
(In thousands, except per share data)

	Years Ended June 30,				
	2008	2007	2006	2005	2004
Statements of Operations Data:					
Revenues from infrastructure solutions	\$ 133,634	\$ 114,612	\$ 97,967	\$ 90,656	\$ 73,305
Revenues from services	62,891	36,133	28,069	18,928	13,931
Total revenues	196,525	150,745	126,036	109,584	87,236
Costs and operating expenses:					
Costs from infrastructure solutions	106,699	92,197	81,410	75,357	63,282
Costs from services	47,739	29,052	23,605	15,527	12,992
Selling and marketing	10,873	8,376	7,029	5,821	4,808
Research and development	1,913	1,451	1,052	1,021	1,328
General and administrative	15,888	12,297	9,589	7,596	6,529
Total costs and operating expenses	183,112	143,373	122,685	105,322	88,939
Income (loss) from operations	13,413	7,372	3,351	4,262	(1,703)
Other income (expense):					
Interest income	1,733	1,370	965	444	271
Interest expense	(285)	(205)			
Gain on liquidation of foreign subsidiary			264		
Gain on sale of available-for-sale securities				132	91
Gain on sale of investment				40	
Income (loss) before income taxes	14,861	8,537	4,580	4,878	(1,341)
(Benefit) provision for income taxes	(12,158)	211	88	64	
Net income (loss) from continuing operations	\$ 27,019	\$ 8,326	\$ 4,492	\$ 4,814	\$ (1,341)
Basic net income (loss) from continuing operations per common share	\$ 1.39	\$ 0.53	\$ 0.30	\$ 0.33	\$ (0.10)
Diluted net income (loss) from continuing operations per common share	\$ 1.34	\$ 0.50	\$ 0.29	\$ 0.32	\$ (0.10)
	19,476	15,795	15,001	14,422	13,346

Weighted-average shares used in the
calculation of basic net income (loss)
from continuing operations per common
share

Weighted-average shares used in the
calculation of diluted net income (loss)
from continuing operations per common
share

20,140	16,672	15,608	14,966	13,346
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	Years Ended June 30,				
	2008	2007	2006	2005	2004
Other Operating Data:					
Net income (loss)	\$ 27,019	\$ 8,326	\$ 4,492	\$ 4,814	\$ (1,341)
Other (income) expense, net	(1,448)	(1,165)	(1,229)	(616)	(362)
(Benefit) provision for income taxes	(12,158)(a)	211	88	64	
Depreciation and amortization	5,742	3,333	3,023	2,695	3,097
EBITDA	\$ 19,155	\$ 10,705	\$ 6,374	\$ 6,957	\$ 1,394
Cash flows provided by (used in)					
operating activities	\$ 9,207	\$ 14,357	\$ (1,129)	\$ (3,926)	\$ 1,613
Cash flows used in investing activities	(5,008)	(36,877)	(2,484)	(1,070)	(1,871)
Cash flows provided by financing					
activities	21,642	23,566	2,531	2,347	6,421
Capital expenditures	5,008	17,808(c)	2,484	3,303	1,267
Backlog at end of year	146,787	141,198	90,930	76,268	75,444
	2008	2007	June 30, 2006	2005	2004
Balance Sheet Data:					
Cash and cash equivalents	\$ 51,399(b)	\$ 25,558	\$ 24,512	\$ 25,609	\$ 28,252
Working capital	79,009	37,251	43,695	36,520	30,052
Total assets	193,092	142,883	93,234	86,378	73,475
Long-term liabilities	957	13,568(d)	353	670	987
Total stockholders' equity	148,776	83,513	67,016	60,137	52,806

(a) During fiscal 2008 we recorded a non-recurring tax benefit of \$12.5 million primarily due to our recognition of a significant portion of our deferred tax assets through a reduction in our deferred tax asset valuation allowance. See Note 13 of the Notes to

Consolidated
Financial
Statements.

- (b) The increase in cash at June 30, 2008 is due to approximately \$36.4 million in net proceeds from an offering of equity securities completed in August and September 2007.

- (c) Capital expenditures of \$17.8 million primarily related to the purchase of network operations center and teleport assets primarily for a large program with Showtime Network Inc. which service began on July 1, 2007. In addition, we upgraded our facility to meet the requirements of our increase in business levels.

- (d) The increase in long term liabilities at June 30, 2007 is primarily due to Acquisition Loan used to partially fund the acquisition

of GlobalSat.
The balance of
the Acquisition
Loan was repaid
on
September 26,
2007.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains, in addition to historical information, forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, based on our current expectations, assumptions, estimates and projections. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as, among others, our dependence on a limited number of contracts for a high percentage of our revenues and a significant reduction in revenues from the government marketplace. These risks and others are more fully described in the Risk Factors section and elsewhere in this Annual Report on Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

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.

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 year ended June 30, 2008, 19% of our revenues were derived from a U.S. Government agency. Although the identity of customers and contracts may vary from period to period, we have been, and expect to continue to be, dependent on revenues from a small number of customers or contracts in each period in order to meet our financial goals. From time to time these customers are located in developing countries or otherwise subject to unusual risks.

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

Contract costs generally include purchased material, direct labor, overhead and other direct costs. Anticipated contract losses are recognized, as they become known. Costs from infrastructure solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor salaries. Costs from services consist primarily of satellite space segment charges, voice termination costs, network operations expenses and Internet connectivity fees. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations 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, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Actual results may differ from these judgments under different assumptions or conditions. Our accounting policies that require management to apply significant judgment include:

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin No. 104 (SAB 104), Revenue Recognition, for our production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. Our standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than our long-term complex production-type projects. Revenue is recognized on our standard

satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer's contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the

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

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

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

Costs from Infrastructure Solutions

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

Goodwill Impairment

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The impairment test is dependent upon estimated future cash flows of the services segment. There have been no events during the year ended June 30, 2008 that resulted in any goodwill impairment.

Deferred tax assets

Consistent with the provisions of SFAS No. 109, Accounting for Income Taxes, (FAS 109) we regularly estimate our ability to recover deferred income taxes, and report such deferred tax assets at the amount that is determined to be more-likely-than-not recoverable, and we have to estimate our income taxes in each of the taxing jurisdictions in

which we operate. This process involves estimating our current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenue and expenses for tax and accounting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheet.

We are required to assess the likelihood that our deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax

planning strategies. If recovery is not likely, we have to provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for current and deferred taxes involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations. This evaluation considers several factors, including an estimate of the likelihood of generating sufficient taxable income in future periods, the effect of temporary differences, the expected reversal of deferred tax liabilities and available tax planning strategies.

During the year ended June 30, 2008, based on positive evidence from our earnings trends, we recognized a portion of our deferred tax assets through a reduction in our deferred tax asset valuation allowance of approximately \$12.5 million. As of June 30, 2007, we maintained a full valuation allowance against our deferred tax assets due to our prior history of pre-tax losses and uncertainty about the timing of and ability to generate taxable income in the future and our assessment that the realization of the deferred tax assets did not meet the more likely than not criterion under FAS 109. At June 30, 2008, we had a deferred tax valuation allowance of approximately \$6.6 million primarily relating to \$6.2 million from net operating losses related to excess stock based compensation expense deductions. If the remaining valuation allowance for the excess stock based compensation were to be reversed the amount would be recorded to additional paid in capital as it is attributable to the tax effects of excess compensation deductions from exercises of employee stock options.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that the Company recognize in its financial statements the benefits of tax return positions if that tax position is more likely than not of being sustained on audit, based on its technical merits. The provisions of FIN 48 became effective as of July 1, 2007. The adoption of this pronouncement on July 1, 2007 did not have an impact on the financial statements of the Company.

Stock-Based Compensation

We account for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123R (revised 2004), Share-Based Payment, which is a revision of SFAS 123 (SFAS 123R). Under the fair value recognition provisions of FAS 123R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the appropriate vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, and the expected volatility of our stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on our consolidated financial statements.

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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a common definition for fair value under accounting principles generally accepted in the United States, establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of

adopting SFAS 157 on our financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations revised (SFAS 141R). SFAS 141R provides additional guidance and standards for the acquisition method of accounting to be used for all business combinations. Charges

for business combination transactions pursuant to SFAS 141R include, among others, expensing acquisition-related transaction costs as incurred, the recognition of contingent consideration arrangements at their acquisition date fair value and capitalization of in-process research and development assets acquired at their acquisition date fair value. FAS141R will be effective for all business combinations consummated beginning July 1, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). This statement provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Accordingly, SFAS 159 is effective for us beginning on July 1, 2008.

Results of Operations

Fiscal Years Ended June 30, 2008 and 2007

Our consolidated results of operations for the fiscal year ended June 30, 2008 include results of the GSM business which have been included in the services segment for the full year. In the fiscal year ended June 30, 2007, GSM business results include two months (May and June 2007) since the acquisition in May 2007.

Revenues from Infrastructure Solutions. Revenues from infrastructure solutions increased by \$19.0 million, or 16.6%, to \$133.6 million for the fiscal year ended June 30, 2008 from \$114.6 million for the fiscal year ended June 30, 2007. The increase in revenues was primarily driven by the increase in the systems design and integration services primarily due to a contract with a leading provider of telecommunication services in Asia and an increase pre-engineered systems product revenue in the government marketplace.

Revenues from Services. Revenues from services increased by \$26.8 million, or 74.1%, to \$62.9 million for the fiscal year ended June 30, 2008 from \$36.1 million for the fiscal year ended June 30, 2007. The increase in revenue was primarily due to the increase of \$22.2 million of GSM revenue along with an increase within the content distribution services from a large program with Showtime Networks Inc. and an increase in the Internet and data services, partially offset by a decrease in life cycle support services in the government marketplace and a decrease in telephony services.

Costs from Infrastructure Solutions. Costs from infrastructure solutions increased by \$14.5 million, or 15.7%, to \$106.7 million for the fiscal year ended June 30, 2008 from \$92.2 million for the fiscal year ended June 30, 2007. The increase was attributable to the higher revenue base. The gross margin increase to 20.2% for the fiscal year ended June 30, 2008 compared to 19.6% for the fiscal year ended June 30, 2007 was mainly attributable to the increased revenue in the pre-engineered systems product line in the government marketplace.

Costs from Services. Costs from services increased by \$18.7 million, or 64.3%, to \$47.7 million for the fiscal year ended June 30, 2008 from \$29.1 million for the fiscal year ended June 30, 2007. Gross margin increased to 24.1% for the fiscal year ended June 30, 2008 compared to 19.6% for the fiscal year ended June 30, 2007. The increase in the margin was primarily driven by GSM revenue along with an increase in revenue within the content distribution services from a large program with Showtime Networks Inc., which has higher margin than the other service offerings. The increase in gross margin in the services segment has been a key driver in the increase in our consolidated income from operations. The future relationship between the revenue and margin growth of our operating segments will depend on a variety of factors, including the timing of major contracts, which are difficult to predict.

Selling and Marketing. Selling and marketing expenses increased by \$2.5 million, or 29.8%, to \$10.9 million for the fiscal year ended June 30, 2008 from \$8.4 million for the fiscal year ended June 30, 2007. The increase is a result of an increase in selling and marketing expenses incurred at GSM of \$0.7 million along with an increase in salary and salary related expenses for additional marketing personnel pursuing business in the government marketplace and travel and living expenses related to marketing efforts exploring new markets.

Research and Development. Research and development expenses increased by \$0.5 million, or 31.8%, to \$1.9 million for the fiscal year ended June 30, 2008 from \$1.5 million for the fiscal year ended June 30, 2007. The increase was principally due to costs associated with expanding CDMA and GSM capabilities to enhance the cellular

hosted switch offering.

General and Administrative. General and administrative expenses increased by \$3.6 million, or 29.2%, to \$15.9 million for the fiscal year ended June 30, 2008 from \$12.3 million for the fiscal year ended June 30, 2007. The increase in general and

administrative expenses for the fiscal year ended June 30, 2008 was due to an increase of \$3.2 million at GSM and an increase in stock compensation expense.

Interest Income. Interest income increased by \$0.4 million, or 26.5%, to \$1.7 million for the fiscal year ended June 30, 2008 from \$1.4 million for the fiscal year ended June 30, 2007, due to the increase in cash from the proceeds of the Company's follow-on equity offering in August and September 2007, which was offset by the decrease in interest rates.

Interest Expense. Interest expense of \$0.3 million for the fiscal year ended June 30, 2008 is a result of the term loan used to partially fund the acquisition of GlobalSat. On September 26, 2007, the Company repaid the principal balance of the acquisition term loan.

Benefit for income taxes. During fiscal 2008 we recorded a non-recurring tax benefit of \$12.5 million primarily due to our recognition of a significant portion of our deferred tax assets through a reduction in our deferred tax asset valuation allowance based on positive evidence from our earnings trends. In fiscal 2009 we expect our effective tax rate to be approximately 36%.

Fiscal Years Ended June 30, 2007 and 2006

Our consolidated results of operations for the fiscal year ended June 30, 2007 include two months of results (May and June 2007) related to the acquisition of the GlobalSat business which are included in the services segment.

Revenues from Infrastructure Solutions. Revenues from infrastructure solutions increased by \$16.6 million, or 17.0%, to \$114.6 million for the fiscal year ended June 30, 2007 from \$98.0 million for the fiscal year ended June 30, 2006. The increase in revenues was primarily driven by the increase in the pre-engineered systems product line revenue in the government marketplace.

Revenues from Services. Revenues from services increased by \$8.1 million, or 28.7%, to \$36.1 million for the fiscal year ended June 30, 2007 from \$28.1 million for the fiscal year ended June 30, 2006. The increase in revenue was primarily due to \$5.1 million of sales due to the acquisition of GlobalSat along with an increase in revenue within the life cycle support services due to an increase in the government marketplace and the sale of equipment and services to a major U.S. enterprise customer offset by a decrease in telephony services due to increased competition.

Costs from Infrastructure Solutions. Costs from infrastructure solutions increased by \$10.8 million, or 13.3%, to \$92.2 million for the fiscal year ended June 30, 2007 from \$81.4 million for the fiscal year ended June 30, 2006. The increase was attributable to the higher revenue base. The gross margin increase to 19.6% for the fiscal year ended June 30, 2007 compared to 16.9% for the fiscal year ended June 30, 2006 was mainly attributable to the increased revenue in the pre-engineered systems product line in the government marketplace, due to contracts with two customers with higher than our usual gross margins.

Costs from Services. Costs from services increased by \$5.4 million, or 23.1%, to \$29.1 million for the fiscal year ended June 30, 2007 from \$23.6 million for the fiscal year ended June 30, 2006. Gross margin increased to 19.6% for the fiscal year ended June 30, 2007 compared to 15.9% for the fiscal year ended June 30, 2006. The increase in the margin was primarily driven by the acquisition of GlobalSat along with an increase in revenue within the life cycle support services which has higher margin than the other service offerings, partially offset by a decrease in the margin in telephony services due to increased competition.

Selling and Marketing. Selling and marketing expenses increased by \$1.3 million, or 19.2%, to \$8.4 million for the fiscal year ended June 30, 2007 from \$7.0 million for the fiscal year ended June 30, 2006. 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 along with selling and marketing expenses incurred at GSM.

Research and Development. Research and development expenses increased by \$0.4 million, or 37.9%, to \$1.5 million for the fiscal year ended June 30, 2007 from \$1.1 million for the fiscal year ended June 30, 2006. The increase was principally due to costs associated with developing the next version of AxxSys® Network Management System on the .Net operating system called AxxSys Orion and additional efforts enhancing the cellular hosted switch offering.

General and Administrative. General and administrative expenses increased by \$2.7 million, or 28.2%, to \$12.3 million for the fiscal year ended June 30, 2007 from \$9.6 million for the fiscal year ended June 30, 2006. The

increase in general and administrative expenses for the fiscal year ended June 30, 2007 was due to an increase in fringe benefits primarily due to the increase in the Company's pay for performance plan, the acquisition of GlobalSat and salary increases due to an increase in headcount.

Interest Income. Interest income increased by \$0.4 million, or 42.0%, to \$1.4 million for the fiscal year ended June 30, 2007 from \$1.0 million for the fiscal year ended June 30, 2006, as a result of increased interest rates.

Interest Expense. Interest expense of \$0.2 million for the fiscal year ended June 30, 2007 is a result of the term loan used to partially fund the acquisition of GlobalSat.

Gain on liquidation of foreign subsidiary. Gain on liquidation of foreign subsidiary for the fiscal year ended June 30, 2006 was due to the realization of the previously unrealized foreign exchange gain reported in other comprehensive income upon the liquidation of our UK subsidiary.

Quarterly Results

The following tables set forth unaudited consolidated financial information for each of the eight fiscal quarters in the period ended June 30, 2008. This information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in the Annual Report on Form 10-K, and we believe all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results of operations when read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Three Months Ended,							
	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006
(In thousands, except per share data)								
Statement of Operations Data:								
Revenues from infrastructure solutions	\$ 40,428	\$ 27,483	\$ 38,925	\$ 26,798	\$ 36,982	\$ 31,818	\$ 28,351	\$ 17,461
Revenues from services	16,016	15,809	15,522	15,544	12,206	7,299	8,370	8,258
Total revenues	56,444	43,292	54,447	42,342	49,188	39,117	36,721	25,719
Costs and operating expenses:								
Costs from infrastructure solutions	32,692	21,388	31,435	21,184	29,695	25,225	23,202	14,075
Costs from services	12,428	12,178	12,027	11,106	9,358	6,131	6,976	6,587
Selling and marketing	3,163	2,457	2,728	2,525	2,545	2,290	1,766	1,775
Research and development	253	507	656	497	488	440	323	200
General and administrative	4,051	3,533	4,229	4,075	3,899	3,033	2,951	2,414
Total costs and operating expenses	52,587	40,063	51,075	39,387	45,985	37,119	35,218	25,051
Income from operations	3,857	3,229	3,372	2,955	3,203	1,998	1,503	668
Other income (expense):								
Interest income	270	387	556	520	363	391	348	268
Interest expense				(285)	(205)			
Income before income taxes	4,127	3,616	3,928	3,190	3,361	2,389	1,851	936
(Benefit) provision for income taxes	(12,726)	193	208	167	89	57	45	20

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Net income	\$ 16,853	\$ 3,423	\$ 3,720	\$ 3,023	\$ 3,272	\$ 2,332	\$ 1,806	\$ 916
Basic net income per common share	\$							