

GLOBECOMM SYSTEMS INC  
Form 10-K  
September 28, 2004  
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, 2004

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	11788 (Zip Code)
(Address of principal executive offices)	

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
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value  
(Title of class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

As of September 23, 2004, there were 14,832,024 shares of the registrant's common stock, \$0.001 par value, outstanding, and the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$100.7 million based on the last reported sale price on the Nasdaq National Market on that date.

#### DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement of Globecomm Systems Inc. relative to the 2004 Annual Meeting of Stockholders to be held on November 17, 2004, is incorporated by reference into Part III of this Annual Report on Form 10-K.

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## PART I

### Item 1. Business

#### Overview

Globecomm Systems Inc., or Globecomm, was incorporated in Delaware in August 1994. We provide end-to-end value-added satellite-based communication solutions by leveraging our core satellite ground segment systems and network capabilities, with the satellite communication services capabilities that are generally provided by our wholly-owned subsidiary, NetSat Express, Inc., or NetSat. The solutions we offer include general contracted complex communications networks, militarized commercial off the shelf products and services, voice over Internet Protocol (or VOIP), video broadcast, business recovery, satellite based terrestrial restoral, content delivery and other networks on a global basis. To provide these solutions, we engineer all the necessary satellite and terrestrial facilities as well as provide the integration services required to implement those facilities. We also operate and maintain these communications services on an ongoing basis. Our customers generally have network service requirements that require point-to-point or point-to-multipoint connections via a hybrid network of satellite and terrestrial facilities, and include communications service providers, commercial enterprises, Internet Service Providers, or ISPs, content providers and government entities. Our solutions business is built on the foundation of our core business as a supplier of ground segment systems and networks for satellite-based communications. We provide these ground segment systems and networks on a contract basis. These implementations include the necessary hardware and software to support a wide range of network applications using satellite, broadcast and terrestrial technologies.

#### Solutions and Products

##### Our Ground Segment Systems and Networks

We design, engineer, integrate and install satellite-based ground segment systems and network solutions for the complex and changing communications requirements of our customers. Our satellite ground segment systems typically consist of earth stations and ancillary subsystems. An earth station is an integrated system consisting of antennas, radio signal transmitting and receiving equipment, modulation/demodulation equipment, monitor and control systems and voice, data and video network interface equipment. Our complex communication network

solutions may include wireless local loop, microwave links or fiber optic links for the transmission of communications traffic to a central office, video broadcast systems or ancillary equipment, such as generators for emergency power requirements. Our customizable modular earth stations may be sold separately as stand-alone ground segment systems or may be used as building blocks to be integrated into a complete ground segment system or network. We believe that this modular approach allows us to engineer our satellite ground segment systems and networks to serve client-specific service requirements rapidly, cost-effectively and efficiently with minimal site preparation. All of our earth stations are configurable to conform to applicable satellite standards.

**Modular Building Block Earth Station MBB 2001.** These earth stations provide point-to-point high-capacity data links and hubs for satellite networks. Generally, all electronics are housed in an indoor equipment enclosure.

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

**Compact Earth Station CES 2001™** We designed this family of digital earth stations to be used principally to provide limited capacity to areas with limited or no telecommunications infrastructure. These earth stations integrate radio frequency and satellite modem components into one antenna mounted package.

**MIL-COTS Transportable Earth Stations™** We designed this family of militarized transportable earth stations primarily for United States and international government customers. This transportable

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system group is comprised of transportable and flyaway earth stations designed to be quickly deployed and operated anywhere in the world in military tactical environments. The latest models include auto-acquisition flyaway satellite terminals and HMMWV (High-Mobility Multipurpose Wheeled Vehicle) mounted satellite terminals that incorporate the latest commercial off the shelf, or COTS, satellite equipment technology that meet the stringent requirements of military tactical operations.

#### Our Communications Services

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

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. We are a network service provider that offers next generation network services to communication service providers, ISPs, enterprises, broadcasters and governments around the world. We combine satellite and terrestrial communications networks to provide customers high-speed access services to the United States Internet backbone, corporate headquarters, government offices, as well as the public switched telephone network. We currently have customers for which we are providing such network services in Africa, the Middle East, Central and South America,

Eastern and Central Europe and the Asia Pacific Region.

#### Standardized Services

**Skyborne<sup>SM</sup>** This service offering provides point to multipoint content delivery of multimedia content. Skyborne is a video, audio and data satellite solution that serves retailers, enterprises, broadcasters, and government agencies. SkyBorne's mission is to provide highly customized and cost-effective broadcast and value-added solutions to these market segments. There are a number of market trends that may require the SkyBorne solution. Certain retailers are implementing video promotions within their retail outlets and have developed cost models that are leading them to deploy nationwide digital signage networks. Corporations are using streaming and stored video for training and internal communications and are finding that their current terrestrial infrastructures are not able to meet the demands of video. Retailers desire customization of video and audio in their outlets and are looking for technologies which allow increased flexibility and customization. Training has become a more important focus for many enterprises, especially retailers, due to increased rates of turnover and the quickening pace of market and technology changes.

**Access Plus<sup>TM</sup>** This service offering provides point to point and point to multipoint Internet connectivity for ISPs, service providers, broadcast, government and enterprise customers. These services provide asymmetrical forward and return links optimized for Internet applications. We offer two way satellite Internet connectivity as well as one way satellite Internet connectivity with terrestrial return. Our Internet access services, marketed under the Access Plus<sup>TM</sup> brand name, provide high-speed access to the United States Internet backbone. As part of this offering we provide the necessary satellite transmission services, terrestrial transit and routing services, earth stations and installation services.

**VOIP Backhaul.** This service 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.

**Video Broadcast.** This service offering provides video turnaround service for a growing number of ethnic channels in the United States for broadcasting to audiences overseas and for internationally produced channels for broadcasting to audiences in the United States.

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**VSAT Services.** This service offers two way very small aperture terminals, or VSAT, services for Internet Access, voice services, and terrestrial network restoral services. This service provides the backbone to a number of our end-to-end solutions.

**Field Services, Preventive Maintenance and Help Desk.** These services are offered as part of end-to-end solutions and as standalone services for hardware companies and service providers. When sold to customers on a standalone basis, these outsourced services leverage the facilities and operations staff we have in place to provide our end-to-end solutions.

#### Solution Offerings

We have created customizable solution offerings based on our core satellite ground segment systems and network capabilities and satellite communication services to serve our customers. These customizable solution offerings include:

Managed Satellite–Terrestrial Network. This solution allows customers to outsource entire satellite-terrestrial based communication networks to us. We are capable of providing a "one stop shopping" solution including licensing, facilities construction and operation and maintenance anywhere in the world.

Next Generation Video Broadcasts. We 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 Internet Protocol based video broadcast services and high quality customer account management. We provide field services for the installation and maintenance of VSAT terminals and related facilities at customer locations anywhere in the world. We have created next generation solutions to allow our customers to evolve their networks to interactive distance learning, merchandizing, corporate communications and video on demand services.

Hybrid Satellite/Cellular Hosted Switch. We are introducing this solution to allow the sharing of the investment in the mobile switch infrastructure and network operations expenses among many service provider customers. This solution is being offered from our Long Island International Teleport to customers in North and South America, Africa, Europe and the Middle East. We will implement base station infrastructure for our service provider customers and operate and maintain the associated cellular switching center on an outsource basis. Our patent pending technology is being used for this solution, including distributed soft switch technology via satellite.

VOIP Packet Voice ("Clear Packet"). This solution provides VOIP via satellite that provides 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. We are a licensed international carrier and have negotiated agreements to terminate and originate international traffic at our Long Island International Teleport.

Disaster Recovery/Business Restoral. We offer call center restoral solutions as a subcontractor to Agility Recovery Solutions in the United States. This provides Agility's customers protection against communication and facility outages. Once an emergency is declared, we restore their communications 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.

Satellite Based Terrestrial Restoral. This solution restores communications when terrestrial based services are interrupted. It is well suited for customers with multiple locations that currently have two terrestrial providers, one primary and one backup service. In this scenario, customers are finding that the terrestrial backup service is subject to failure at the same time the primary service fails. We have developed an Internet Protocol satellite network solution to backup frame relay and other terrestrial services. This solution automatically routes traffic through the satellite backup network if the terrestrial service fails at any location in the customer's network. We are currently demonstrating this offering for a number of potential customers.

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Hosted Direct to Home Broadcast Center. We have developed a solution that provides all the functionality required for a new service provider to enter the direct to home service business with a minimal capital investment. We have built this solution at our Long Island International Teleport for one of our customers. In addition, we are providing on-going monitoring and operational services for this customer. This facility includes 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.

General Contracted Complex Communications Networks. We have developed a variety of general contracted complex communications networks for Angola, the Island Nation of Tonga and Afghanistan. These infrastructure programs require skills in many disciplines and we are qualified to bring those skills together at competitive costs and in a short time. These projects include the engineering, integration and deployment of complete turn-key solutions comprised of Internet Protocol 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.

Supervisory, Control and Data Acquisition, or SCADA Network. We offer SCADA infrastructure and service solutions to monitor critical infrastructure. 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. 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.

Our solutions continue to evolve based on changes in markets and technology. These solution sets position us to leverage the value in our offerings by providing one stop shopping solutions including communications infrastructure, network services and related back office services, as required.

#### Sales and Marketing

We market our products and services to communications services providers, commercial enterprises, ISPs, broadcasters and other content providers and government entities. We have structured our sales and marketing approach to respond effectively to the opportunities in the communications services market, as well as the traditional ground segment systems and networks market. Our marketing activities are organized regionally, as well as on an industry-specific basis. We use both direct and indirect sales channels to market our services and products. Our direct sales force focuses on industry-specific markets, including government, broadcast and commercial enterprises.

Our corporate sales offices sell and market our communications services and ground segment systems and networks in the United States and internationally. We have a corporate sales offices in Washington D.C. to service the U.S. Government, in Dubai, United Arab Emirates to service the Middle East and East Asia, in Hong Kong to service the Asia Pacific region and China and in Newcastle, United Kingdom to service the European Community through our Globecomm Systems Europe Limited subsidiary. The corporate sales offices work with the regional business teams and/or the NetSat service team to make proposals and negotiate contracts.

Our regional business teams, located in Hauppauge, New York, sell and market our communications services and ground segment systems and networks internationally in concert with the corporate sales offices. These regional business teams are responsible for orders and programs in the regions to which they are assigned, as well as for the delivery of our products and services and for account management of our existing customers. Currently, we have business teams responsible for the Americas, the Asia Pacific region, Africa, the Middle East and Europe. We also have a business team dedicated to the government marketplace.

These regional business 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 in these regions provide a local presence and identify prospective customers for our sales

executives. Our account managers may also function as project engineers for network integration and service initiation programs for their accounts. As of June 30, 2004, we employed 36 persons with sales and marketing responsibility, of which 14 are full-time sales executives and 22 have dual engineering and sales and marketing responsibilities. We believe this account management focus provides continuity and loyalty between our customers and us. We also believe that our approach fosters long-term relationships that lead to follow-on work and referrals to new customers. These accounts also provide us with a market for the new products and services that we develop. In addition, we obtain sales leads for new customers through referrals from industry suppliers.

Our marketing program is intended to build national and international awareness of our brand. We use direct mailings, print advertising to targeted markets and trade publications to enhance awareness and acquire leads for our direct and indirect sales teams. We create brand awareness by participating in industry trade shows sponsored by organizations like the International Telecommunications Union, the National Association of Broadcasters and various 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.

#### Customers

We have established a diversified base of customers in a variety of industries. Our customers include communications services providers, commercial enterprises, multinational corporations, ISPs, broadcasters and other content providers and government entities. We typically rely upon a small number of customers for a large portion of our revenues. One major customer, the United Nations, accounted for approximately 11% of our consolidated revenues for the fiscal year ended June 30, 2004. We expect that in the near term a significant portion of our revenues will continue to be derived from one or a limited number of customers (the identity of whom may vary from year to year) as we seek to expand our business and customer base.

#### Backlog

At June 30, 2004, our backlog was approximately \$75.4 million compared to approximately \$58.0 million at June 30, 2003. 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, 2004, \$49.2 million, or approximately 65.2%, 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."

#### Communications Infrastructure

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

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

We lease transponder capacity to meet the bandwidth needs of our customers. We lease 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.

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We have built and staff a network operations center, or NOC, to manage customer circuits. The NOC operates 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 its 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.

#### 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 system products. The costs of developing new technologies are funded partially by the investments made by us and partially by development funded by specific customer program requirements. This approach provides us with a cost-effective means to develop new technology, while minimizing our direct research and development expenditures. Furthermore, we believe that our research and development capabilities allow us to offer added value in developing solutions for our customers, while at the same time we maintain the opportunity to develop products through our strategic supplier relationships. Our internal research and development efforts generally focus on the development of products and services not available from other suppliers to the industry. Current efforts are focused on developing content delivery network services for our enterprise customers, broadcast systems technology for our broadcast customers, network management system products for all our earth terminal and network customers and customizable systems for our government customers. For the years ended June 30, 2004, 2003 and 2002, we have incurred approximately \$1.3 million, \$0.8 million, and \$1.2 million, respectively, in internal research and development expenses.



## Competition

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

In the communications services market, we believe that our ability to compete successfully is based primarily on 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 satellite ground segment systems and networks market generally fall into two groups: (1) system integrators like ITT, Data Path and Global Communication Services and (2)

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equipment manufacturers who also provide integrated systems, like Andrew Corporation, Tripoint Global, Alcatel and ND Satcom AG.

In the end-to-end satellite-based communication solutions and communications services markets, we compete with other satellite communication companies who provide similar services, like Verestar and Convergent Media Systems. In addition, we may compete with other communications services providers like Echostar and AT&T, and satellite owners like Panamsat, Loral Skynet, New Skies Satellites N.V. and Intelsat. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. In addition, we anticipate that continuing deregulation worldwide is expected to result in the formation of a significant number of new competitive service providers over the next two or three years.

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 three patents in the United States, one for remote access to the Internet using satellites, another for satellite communication with automatic frequency control and one for a monitor and control system for satellite communications networks and the like. We have two other patents pending in the United States, one for implementing facsimile and data communications using Internet Protocols and another 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; for GSI in the United States and Russia; and for NetSat Express in the United States, the European Community, Russia, Singapore and Brazil. We have also received trademark registrations in the United States for Wide Area Network Anywhere, MBB2001, CTF2001, CES2001 and AXSYS, which relate to our customizable modular earth stations; for Impact, which relates to our customizable ISP solutions; and for the GSI and NetSat logos. 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 earth stations in Hauppauge, New York, subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of the FCC. Pursuant to the FCC Act and FCC rules and regulations, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. We have also obtained and are required to maintain authorization issued under Section 214 of the FCC Act to act as a telecommunications carrier, which authorization also extends

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to NetSat. These licenses should be renewed by the FCC in the normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that additional licenses will be granted by the FCC when our existing licenses expire, nor can we assure you that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses.

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

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

#### Common Carrier Regulation

We currently provide services to our customers on a private carrier 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 earth stations. 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 data communications services may impose impediments on our operations. Some countries in which we operate or intend to operate have telecommunications laws and regulations that do not currently contemplate technical advances in telecommunications technology like Internet/intranet transmission by satellite. We cannot assure you that the present regulatory environment in any of those countries will not be changed in a manner which may have a material adverse impact on our business. Either we or our local sales representatives typically must obtain authorization for each country in which we provide our satellite-delivered data communications services. Although we believe that we or our local sales representatives will be able to obtain the requisite licenses and approvals from the countries in which we intend to provide products and services, the regulatory schemes in each country are different, and thus there may be instances of noncompliance of which we are not aware. Although we believe these

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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, or NetSat's, Internet operations will be carried out in countries which may impose greater regulation of the content of information coming into their country than that which is generally applicable in the United States. Examples of this include privacy regulations in Europe and content restrictions in countries, such as the 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

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

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

#### Export of Telecommunications Equipment

The sale of our ground segment systems, networks, and communications service solutions outside the United States is subject to compliance with the regulations of the United States Export Administration

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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, 2004, we had 155 full-time employees, including 74 in engineering and program management, 38 in the manufacturing, operations support, and network operations, 14 in sales and marketing and 29 in management and administration. Our employees are not covered by any collective-bargaining agreements. We believe that our relations with our employees are good.

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 and production facilities, as well as the offices and the network operations center of NetSat. We lease office space at a monthly fee of approximately \$3,800 for office and operations facilities for our wholly-owned subsidiary, Globecomm Systems Europe Limited, in the United Kingdom. In addition, we have a lease for office space in Hong Kong at a monthly rental fee of approximately \$1,900, a lease for office space in Dubai at a monthly rental fee of approximately \$2,000 and another lease for space in Washington DC at a monthly rental fee of approximately \$1,600.

Item 3. Legal proceedings

None.

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

None.

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PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Our common stock is quoted on the Nasdaq National Market under the symbol "GCOM." The fiscal 2004 and 2003 high and low sales prices are as follows:

	High	Low
<b>2004</b>		
Quarter ended September 30, 2003	\$ 5.00	\$ 3.05
Quarter ended December 31, 2003	7.29	3.75
Quarter ended March 31, 2004	7.00	4.36
Quarter ended June 30, 2004	6.90	4.67
<b>2003</b>		

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Quarter ended September 30, 2002	5.70	2.40
Quarter ended December 31, 2002	4.75	2.60
Quarter ended March 31, 2003	3.99	2.34
Quarter ended June 30, 2003	4.25	2.45

At September 23, 2004, there were approximately 3,500 stockholders of record of our common stock, as shown in the records of our transfer agent.

At the close of the Nasdaq National Market on September 23, 2004, our market price per share was \$7.18.

As of June 30, 2004, 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, 2004

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	3,358,892	\$ 7.05	269,090
Equity compensation plans not approved by security holders	55,825	\$ 8.07	—
Total	3,414,717	\$ 7.06	269,090

The equity compensation plans that were adopted without the approval of the security holders relate to outstanding warrants. During November 1996, we issued ten-year warrants to five consultants to purchase an aggregate of 64,125 shares of common stock at a price per share of \$8.07 in consideration for services rendered.

Item 6. Selected Financial Data

Our selected consolidated financial data as of and for each of the five years in the periods ended June 30, have been derived from our audited consolidated financial statements. EBITDA represents loss before minority interests in operations of our consolidated subsidiary, interest income, interest expense, provision for income taxes, depreciation and amortization expense, a gain on the sale of consolidated

subsidiary's common stock, a gain on sale of investment and a gain on sale of available-for-sale securities. 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 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.

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

	Years Ended June 30,				
	2004	2003	2002	2001	2000
<b>Statements of Operations Data:</b>					
Revenues from ground segment systems, networks and enterprise solutions	\$ 73,305	\$ 40,125	\$ 64,101	\$ 78,744	\$ 69,584
Revenues from data communications services	13,931	13,903	22,478	24,170	8,987
Total revenues	87,236	54,028	86,579	102,914	78,571
Costs and operating expenses:					
Costs from ground segment systems, networks and enterprise solutions	63,282	39,447	57,083	70,907	60,634
Costs from data communications services	12,992	17,796	26,705	22,661	10,101
Selling and marketing	4,808	6,042	6,735	7,235	6,139
Research and development	1,328	800	1,185	850	784
General and administrative	6,529	9,423	11,970	9,822	8,797
Asset impairment charge	—	—	237	2,857	—
Restructuring charge	—	—	—	1,950	—
Total costs and operating expenses	88,939	73,508	103,915	116,282	86,455
Loss from operations	(1,703)	(19,480)	(17,336)	(13,368)	(7,884)
Other income (expense):					
Interest income	271	422	1,030	3,194	1,727
Interest expense	—	(539)	(957)	(6,579)	(2,522)
Gain on sale of consolidated subsidiary's common stock	—	—	—	—	2,353
	91	—	—	—	—

Gain on sale of available-for-sale securities						
Gain on sale of investment	—	—	—	304	—	
Loss before income taxes and minority interests in operations of consolidated subsidiary	(1,341)	(19,597)	(17,263)	(16,449)	(6,326)	
Provision for income taxes	—	—	—	(1,600)	—	
Loss before minority interests in operations of consolidated subsidiary	(1,341)	(19,597)	(17,263)	(18,049)	(6,326)	
Minority interests in operations of consolidated subsidiary	—	—	—	(650)	2,745	
Net loss	\$ (1,341)	\$ (19,597)	\$ (17,263)	\$ (18,699)	\$ (3,581)	
Basic and diluted net loss per common share	\$ (0.10)	\$ (1.56)	\$ (1.36)	\$ (1.55)	\$ (0.36)	
Weighted-average shares used in the calculation of basic and diluted net loss per common share	13,346	12,565	12,707	12,060	10,016	

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	Years Ended June 30,				
	2004	2003	2002	2001	2000
<b>Other Operating Data:</b>					
Net loss	\$ (1,341)	\$ (19,597)	\$ (17,263)	\$ (18,699)	\$ (3,581)
Other expense (income)	(362)	117	(73)	3,081	(1,558)
Minority interest in operations of consolidated subsidiary	—	—	—	650	(2,745)
Provision for income taxes	—	—	—	1,600	—
Depreciation and amortization	3,097	3,532	3,661	7,229	3,347
EBITDA	\$ 1,394	\$ (15,948)	\$ (13,675)	\$ (6,139)	\$ (4,537)
Cash flows provided by (used in) operating activities	1,613	(14,714)	(2,942)	(11,823)	(8,925)
Cash flows used in investing activities	(1,871)	(1,712)	(2,387)	(7,446)	(361)
Cash flows provided by (used in) financing activities	6,421	(310)	(1,018)	(982)	62,614
Capital expenditures, net of non-cash capital lease expenditures	1,267	1,732	1,687	5,350	6,926
Backlog at end of year	75,444	58,006	80,269	101,013	100,139
			June 30,		
	2004	2003	2002	2001	2000
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 28,252	\$ 22,016	\$ 38,708	\$ 45,038	\$ 65,289
Working capital	30,052	22,040	43,702	60,399	74,531
Total assets	73,475	70,344	100,297	124,999	222,754
Long-term liabilities	987	1,303	12,693	13,446	96,355



Minority interests in consolidated subsidiary	—	—	—	—	126
Series A participating preferred stock of consolidated subsidiary	—	—	—	—	5,000
Total stockholders' equity	52,806	47,437	67,040	85,141	90,524

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## 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, uncertain demand for our services and products due to economic and industry-specific conditions, the risks associated with operating in international markets and our dependence on a limited number of contracts for a high percentage of our revenues. These risks and others are more fully described in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

### Overview

Since our inception, a majority of our revenues have been generated by our ground segment systems, networks and enterprise solutions business. Contracts for these ground segment systems and networks and communications services have been fixed-price contracts in 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 in the period identified. Costs from ground segment systems, networks and enterprise solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor salaries. Costs from data communications services consist primarily of satellite space segment charges, Internet connectivity fees and network operations expenses. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellite leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations center on a twenty-four hour a day, seven day a week basis, including personnel and related costs 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.

Our business had been adversely affected, and to some extent continues to be affected, by the recent global economic slowdown and, in particular, the significant challenges facing the telecommunications industry worldwide. Recently, we have seen improvement in the segments we serve, in particular within the U.S. Government and government related entities marketplace. However, some of the adverse consequences of the downturn continue to impact pricing and competition and we may experience a decline in bookings of contract orders as customers and prospects delay projects, which will negatively impact our business and prospects in the future. We also may be negatively impacted in the future by a reduction in opportunities from U.S. Government and government related agencies.

#### 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

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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 is typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than our long-term complex production-type projects. Revenue is recognized on our standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer's contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the features or capabilities of the equipment, does not require complex software integration and interfacing and we have not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the equipment. The estimated relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, we will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues.

We recognize revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for our non-standard, complex production-type contracts for the production of satellite ground segment systems and equipment that are generally integrated into the customers'

satellite ground segment network. The equipment and systems produced in connection with these contracts are typically long-term (in excess of twelve months in term) and require significant customer-specific engineering, drafting and design effort in order to effectively integrate all of the customizable earth station equipment into the customers' ground segment network. These contracts generally have larger contract values, greater economic risks and substantive specific contractual performance requirements due to the engineering and design complexity of such systems and related equipment. Progress payments received in advance by customers are netted against the inventories balance.

#### Costs from Ground Segment Systems, Networks and Enterprise Solutions

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

#### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired primarily from the buyback of the minority interests of NetSat. Beginning in the fiscal year ended June 30,

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2002 with our adoption of SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and other indefinite life intangible assets are no longer being amortized, but instead tested for impairment at least annually.

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

#### Allowances for Doubtful Accounts

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

#### Inventories

Inventories consist primarily of work-in-progress from costs incurred in connection with specific customer contracts, which are stated at the lower of cost or market value. In assessing the realizability of inventories, we are required to

make estimates of the total contract costs based on the various elements of the work-in-progress. It is possible that changes to these estimates could cause a reduction in the net realizable value of our inventories.

## Results of Operations

### **Fiscal Years Ended June 30, 2004 and 2003**

**Revenues from Ground Segment Systems, Networks and Enterprise Solutions.** Revenues from ground segment systems, networks and enterprise solutions increased by \$33.2 million, or 82.7%, to \$73.3 million for the fiscal year ended June 30, 2004 from \$40.1 million for the fiscal year ended June 30, 2003. The increase in revenues was primarily the result of increased infrastructure sales in the U.S. Government and government related entities marketplace, coupled with increased sales due to a general overall improvement in the telecommunications industry segments we serve and the achievement of shipment milestones associated with projects currently in progress.

**Revenues from Data Communications Services.** Revenues from data communications services were consistent at \$13.9 million for the fiscal years ended June 30, 2004 and 2003. A significant portion of these revenues was derived from sales of our Access Plus™ service. We expect a shift in revenues from Access Plus™ to other service offerings in the future.

**Costs from Ground Segment Systems, Networks and Enterprise Solutions.** Costs from ground segment systems, networks and enterprise solutions increased by \$23.8 million, or 60.4%, to \$63.3 million for the fiscal year ended June 30, 2004 from \$39.4 million for the fiscal year ended June 30, 2003. The increase is attributable to a higher revenue base. Costs as a percentage of related revenues decreased to 86.3% for the fiscal year ended June 30, 2004 from 98.3% for the fiscal year ended June 30, 2003. The decrease was mainly attributable to cost overruns incurred on a major project during the year ended June 30, 2003 and increased margin on revenues related to U.S. Government and government related entities projects during the year ended June 30, 2004.

**Costs from Data Communications Services.** Costs from data communications services decreased by \$4.8 million, or 27.0%, to \$13.0 million for the fiscal year ended June 30, 2004 from \$17.8 million for the fiscal year ended June 30, 2003. Costs as a percentage of related revenues decreased to 93.3% for the fiscal

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year ended June 30, 2004 from 128.0% for the fiscal year ended June 30, 2003. The decrease in costs was primarily due to agreements reached with two of our vendors during February 2003 and October 2002, in which we significantly reduced our space segment transponder costs and obligations.

**Selling and Marketing.** Selling and marketing expenses decreased by \$1.2 million, or 20.4%, to \$4.8 million for the fiscal year ended June 30, 2004 from \$6.0 million for the fiscal year ended June 30, 2003. The decrease was primarily due to reduced salary, salary related expenses, and travel and living costs for sales and marketing personnel as part of our cost-cutting initiatives.

**Research and Development.** Research and development expenses increased by \$0.5 million, or 66.0%, to \$1.3 million for the fiscal year ended June 30, 2004 from \$0.8 million for the fiscal year ended June 30, 2003. The increase was due to product research and development initiatives associated with projects currently in progress, research efforts in remote video monitoring systems and internal development of new monitoring and control technologies.

**General and Administrative.** General and administrative expenses decreased by \$2.9 million, or 30.7%, to \$6.5 million for the fiscal year ended June 30, 2004 from \$9.4 million for the fiscal year ended June 30, 2003. As a percentage of revenues, general and administrative expenses decreased to 7.5% for the fiscal year ended June 30, 2004 from 17.4% for the fiscal year ended June 30, 2003 primarily due to the increase in revenues. On an absolute basis, the decrease in general and administrative expenses for the fiscal year ended June 30, 2004 is primarily due to the non-recurrence of a \$1.5 million allowance for uncollectible accounts receivable from a major customer recorded in the fiscal year ended June 30, 2003, a reduction in legal expenses related to a settlement reached with a customer in the Middle East, along with reduction in salaries due to our cost cutting initiatives.

**Interest Income.** Interest income decreased by \$0.2 million, or 35.8%, to \$0.3 million for the fiscal year ended June 30, 2004 from \$0.4 million for the fiscal year ended June 30, 2003. The decrease was due the reduction of the average balance of cash and cash equivalents due to the cash used in our operations during the fiscal year ended June 30, 2003 along with a reduction in the interest rates.

**Interest Expense.** Interest expense decreased by \$0.5 million to zero for the fiscal year ended June 30, 2004 from \$0.5 million for the fiscal year ended June 30, 2003. The decrease was due to the termination of our capital lease obligation in February 2003.

**Gain on Sale of Available-for-Sale Securities.** The gain on sale of available-for-sale securities of \$0.1 million for the fiscal year ended June 30, 2004, related to the sale of an investment that resulted in proceeds of \$0.4 million in the year ended June 30, 2004.

#### **Fiscal Years Ended June 30, 2003 and 2002**

**Revenues from Ground Segment Systems, Networks and Enterprise Solutions.** Revenues from ground segment systems, networks and enterprise solutions decreased by \$24.0 million, or 37.4%, to \$40.1 million for the fiscal year ended June 30, 2003 from \$64.1 million for the fiscal year ended June 30, 2002. The decrease related to a decrease in shipment and/or completion of contracts as a result of a decline in bookings of contract orders due to the continued uncertainty surrounding the global economic slowdown in the telecommunications industry, resulting in customers and prospects continuing to delay projects.

**Revenues from Data Communications Services.** Revenues from data communications services decreased by \$8.6 million, or 38.1%, to \$13.9 million for the fiscal year ended June 30, 2003 from \$22.5 million for the fiscal year ended June 30, 2002. The decrease reflected changes in market conditions, including the global economic slowdown in the telecommunications industry, pricing pressures in the marketplace and penetration of fiber into areas where we have traditionally provided services, coupled with the termination of services from our largest Middle East customer in August 2002. During February 2003 and October 2002, pursuant to agreements reached with two of our vendors, we assigned contracts with future revenues of \$35.8 million, which reduced our monthly recurring revenues by approximately \$0.4 million.

**Costs from Ground Segment Systems, Networks and Enterprise Solutions.** Costs from ground segment systems, networks and enterprise solutions decreased by \$17.6 million, or 30.9%, to \$39.4 million

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for the fiscal year ended June 30, 2003 from \$57.1 million for the fiscal year ended June 30, 2002. The decrease was attributable to a lower revenue base. Costs as a percentage of related revenues increased to 98.3% for the fiscal year

ended June 30, 2003 from 89.1% for the fiscal year ended June 30, 2002. The increase was mainly attributable to competitive margin pressure and a \$4.4 million charge, principally in the fourth quarter, related to a major customer for costs to complete certain contracts.

**Costs from Data Communications Services.** Costs from data communications services decreased by \$8.9 million, or 33.4%, to \$17.8 million for the fiscal year ended June 30, 2003 from \$26.7 million for the fiscal year ended June 30, 2002. Costs as a percentage of related revenues increased to 128.0% for the fiscal year ended June 30, 2003 from 118.8% for the fiscal year ended June 30, 2002. The decrease in costs was primarily due to agreements reached with two of our vendors during February 2003 and October 2002, in which we significantly reduced our space segment transponder costs and obligations. These agreements will continue to reduce our future monthly space segment costs. The increase as a percentage of related revenue was due to a lower revenue base resulting from the termination of services from our largest Middle East customer in August 2002, the assignment of \$35.8 million in contract revenues and payments of \$4.1 million for termination fees related to our agreements to reduce our space segment transponder obligations.

**Selling and Marketing.** Selling and marketing expenses decreased by \$0.7 million, or 10.3%, to \$6.0 million for the fiscal year ended June 30, 2003 from \$6.7 million for the fiscal year ended June 30, 2002. The decrease was primarily due to reduced salary and salary related expenses, offset by severance costs associated with reductions in sales and marketing personnel.

**Research and Development.** Research and development expenses decreased by \$0.4 million, or 32.5%, to \$0.8 million for the fiscal year ended June 30, 2003 from \$1.2 million for the fiscal year ended June 30, 2002. The decrease was attributable to reduced internal development of monitoring and control technologies and the non-recurrence of costs associated with the development of various initial subsystems for solutions provided to a new customer in fiscal year 2002.

**General and Administrative.** General and administrative expenses decreased by \$2.5 million, or 21.3%, to \$9.4 million for the fiscal year ended June 30, 2003 from \$12.0 million for the fiscal year ended June 30, 2002. General and administrative expenses as a percentage of revenues increased to 17.4% for the fiscal year ended June 30, 2003 from 13.8% for the fiscal year ended June 30, 2002, primarily due to the decrease in revenues. The decrease in general and administrative expenses for the fiscal year ended June 30, 2003 primarily resulted from the non-recurrence of a \$3.2 million allowance for uncollectible accounts receivable from our largest Middle East customer in the fiscal year ended June 30, 2002 (of which \$1.0 million was recovered during the fourth quarter of fiscal year ended June 30, 2003), offset by the recording of a \$1.5 million expense provision related to the risk of non-collection of a receivable from a major customer and an increase in insurance premiums.

**Asset Impairment Charge.** The asset impairment charge of \$0.2 million for the fiscal year ended June 30, 2002, related to a write-down of the net carrying value of goodwill relating to the acquisition of a wireless local loop telephone network solutions business during the fiscal year ended June 30, 1999.

**Interest Income.** Interest income decreased by \$0.6 million, or 59.0%, to \$0.4 million for the fiscal year ended June 30, 2003 from \$1.0 million for the fiscal year ended June 30, 2002. The decrease was primarily due to a significant decline in cash and cash equivalents due to cash used in operations during the fiscal year ended June 30, 2003.

**Interest Expense.** Interest expense decreased by \$0.4 million, or 43.7%, to \$0.5 million for the fiscal year ended June 30, 2003 from \$1.0 million for the fiscal year ended June 30, 2002. The decrease was the result of less interest paid on a capital lease obligation, which was terminated in February 2003.

## Quarterly Results

The following tables set forth unaudited consolidated financial information for each of the eight fiscal quarters in the period ended June 30, 2004. We believe that this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in the Annual Report on Form 10-K, and we believe all necessary adjustments, consisting only of normal recurring adjustments,

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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, 2004	Mar. 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003	Mar. 31, 2003	Dec. 31, 2002	Sept. 30, 2002
	(In thousands, except per share data)							
<b>Consolidated Statement of Operations</b>								
<b>Data:</b>								
Revenues from ground segment systems, networks and enterprise solutions	\$ 17,427	\$ 18,956	\$ 19,891	\$ 17,031	\$ 10,876	\$ 9,231	\$ 11,854	\$ 8,164
Revenues from data communications services	3,387	3,305	3,809	3,430	3,170	3,261	3,202	4,270
Total revenues	20,814	22,261	23,700	20,461	14,046	12,492	15,056	12,434
Costs and operating expenses:								
Costs from ground segment systems, networks and enterprise solutions	14,000	16,180	17,798	15,304	12,001	8,967	10,787	7,692
Costs from data communications services	3,381	3,138	3,255	3,218	3,326	3,697	4,484	6,289
Selling and marketing	1,347	1,219	1,126	1,116	1,282	1,513	1,615	1,632
Research and development	375	242	236	475	247	131	157	265
General and administrative	1,414	2,118	2,103	893	2,772	2,277	2,418	1,956
Total costs and operating expenses	20,517	22,897	24,518	21,006	19,628	16,585	19,461	17,834
Income (loss) from operations	297	(636)	(818)	(545)	(5,582)	(4,093)	(4,405)	(5,400)
Other income (expense):								
Interest income	80	63	66	62	63	73	116	170
Interest expense	—	—	—	(1)	—	(76)	(230)	(233)
Gain on sale of available-for-sale securities	—	—	91	—	—	—	—	—
Net income (loss)	\$ 377	\$ (573)	\$ (661)	\$ (484)	\$ (5,519)	\$ (4,096)	\$ (4,519)	\$ (5,463)
Basic and diluted net income (loss) per common share	\$ 0.03	\$ (0.04)	\$ (0.05)	\$ (0.04)	\$ (0.44)	\$ (0.33)	\$ (0.36)	\$ (0.43)
Weighted-average shares used in the calculation of basic net income	14,141	14,100	12,575	12,576	12,555	12,557	12,566	12,583

(loss) per common share

Weighted-average shares used in  
the calculation of diluted net

income (loss) per common share	14,593	14,100	12,575	12,576	12,555	12,557	12,566	12,583
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We may continue to experience significant quarter-to-quarter fluctuations in our consolidated results of operations, which may result in volatility in the price of our common stock. See section entitled "Risk Factors."

#### Liquidity and Capital Resources

At June 30, 2004, we had working capital of \$30.1 million, including cash and cash equivalents of \$28.3 million, restricted cash of \$1.9 million, net accounts receivable of \$14.3 million, inventories of \$3.9 million and prepaid expenses and other current assets of \$1.3 million, offset by \$15.5 million in accounts payable, \$1.1 million in deferred revenue and \$3.1 million in accrued expenses and other current liabilities.

Net cash provided by operating activities during the fiscal year ended June 30, 2004 was \$1.6 million, which primarily related to an increase in accounts payable of \$4.7 million relating to the increase in

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revenues and the timing of vendor payments, a decrease in inventories of \$7.5 million due to the timing of shipments on certain jobs, and non-cash items representing depreciation and amortization expense of \$3.1 million primarily related to the network operations center and satellite earth station equipment. These amounts provided were partially offset by the net loss of \$1.3 million, an increase in accounts receivable of \$5.4 million due to the increase in revenues and a decrease in deferred revenues of \$6.6 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts.

Net cash used in investing activities during fiscal year ended June 30, 2004 was \$1.9 million, which related to the purchase of \$1.3 million of fixed assets primarily for our network operations center in order to support our existing service base and an increase in restricted cash of \$1.3 million based on certificates of deposit issued as collateral for specific projects, offset by proceeds received of \$0.4 million from the sale of available-for-sale securities and a repayment of a \$0.3 million promissory note from a related party.

Net cash provided by financing activities during fiscal year ended June 30, 2004 was \$6.4 million. In December 2003, we completed a private placement transaction of equity securities where we issued 1,500,000 shares of common stock at a price of \$4.50 per share for an aggregate price of \$6,750,000 and issued warrants to purchase up to 750,000 shares of common stock at an exercise price of \$5.50 per share. We incurred total expenses of approximately \$0.6 million, of which approximately \$0.5 million represented placement agent commissions and approximately \$0.1 million represented other offering expenses. The net proceeds to the Company after deducting total expenses were approximately \$6.2 million. We also received \$0.6 million of proceeds from the exercise of stock options and sale of common stock in connection with the employee stock purchase plan purchase, offset by the purchase of \$0.3 million of treasury stock.

In September 2003, we entered into a one-year credit agreement with our existing bank, which provides for a working capital credit facility of up to \$7.5 million consisting of a \$3.75 million secured domestic line of credit (the "Domestic Line") and a \$3.75 million Export-Import Bank secured guaranteed line of credit (the "EXIM Line"). We will be advanced up to 80% of eligible domestic accounts receivable and 90% of eligible foreign accounts receivable under



each respective line of credit, as defined in the agreement. In March 2004, we amended the agreement to allow us to borrow up to \$7.5 million against the Domestic Line, reduced by borrowings against the EXIM Line. The amendment also provided eligibility of up to 50% of the amount of our cash and cash equivalents at the bank, up to the \$7.5 million. In June 2004, we amended the agreement to allow us to borrow up to \$10.5 million. Each line of credit bears interest at the greater of 6.0% or the prime rate plus 2.0% per annum, and is collateralized by a first security interest on all of our personal property. The credit agreement allows us to borrow and apply letters of credit against the availability under each line of credit. In addition, the credit agreement contained certain financial and other covenants, deposit requirements, monthly reporting provisions and other requirements, as defined in the credit agreement, with which we were in compliance with at June 30, 2004. As of June 30, 2004, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately \$8.6 million, which were applied against and reduced the amounts available under this credit facility.

We are currently negotiating a new credit facility with our existing bank. Our current credit agreement has been extended until October 31, 2004, while we finalize the terms of a new agreement. We have received bank funding approval for a new credit facility up to \$16.5 million with similar terms to our current credit agreement. We anticipate entering into a formal agreement prior to October 31, 2004.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through fiscal 2009. Future minimum lease payments due on these leases through June 30, 2005 are approximately \$5.7 million.

We have reached a \$4.0 million settlement with a major customer and received initial payments of \$3.5 million (\$3.0 million of which was received in July 2004). This settlement will result in a non-recurring gain of approximately \$1.9 million, which will be reflected in our fiscal first quarter ending September 30, 2004.

On November 7, 2001, the Board of Directors authorized a stock repurchase program whereby we can repurchase up to \$2.0 million of our outstanding stock, representing approximately 3.7% of the total

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shares outstanding on that date. Since November 2001, we have repurchased an aggregate of 317,606 shares for approximately \$1.7 million. The timing, price, quantity and manner of future purchases will be at the discretion of management, depending on market conditions and other factors, subject to compliance with the applicable securities laws.

We expect that our cash and working capital requirements for operating activities will increase as we continue to implement our business strategy. Management anticipates additional working capital requirements for work in progress for orders as obtained and that we may experience negative cash flows due to quarter to quarter operating performance.

NetSat has had, and we expect it will continue to have, working capital and additional capital expenditure requirements, which have, and may continue to put increased pressure on our capital resources.

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the ground segment systems, networks and data communications services business, the nature and timing of customer orders and the extent to which we must conduct research and development efforts internally. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements at least through

June 30, 2005. However, we cannot assure you that there will be no unforeseen events or circumstances that would consume available resources significantly before that time. For example, future events occurring in response to the hostilities in Iraq and Afghanistan, or in connection with a war, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our products and services in the United States and internationally may impact our results of operations. In particular, we currently have two significant contracts with the Ministry of Communication of the Islamic Transitional State of Afghanistan. Unexpected events negatively impacting international commerce, including additional conflicts in the Middle East, could defer our ability to close contracts with international customers. Additional funds may not be available when needed and, even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common stock, which could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. If adequate funds are unavailable, we may be required to delay, scale back or eliminate some of our operating activities, including, without limitation, the timing and extent of our marketing programs and research and development activities and further reductions in headcount. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

#### Contractual Obligations and Commercial Commitments

At June 30, 2004, we had contractual obligations and commercial commitments as follows (in thousands):

	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
<b>Contractual Obligations</b>					
Operating leases	\$ 17,710	\$ 5,691	\$ 9,037	\$ 2,982	\$ —
Total contractual cash obligations	\$ 17,710	\$ 5,691	\$ 9,037	\$ 2,982	\$ —

	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1-3 years	4-5 years	Over 5 years
<b>Other Commercial Commitments</b>					
Standby letters of credit	\$ 8,650	\$ 939	\$ 7,711	\$ —	\$ —
Total commercial commitments	\$ 8,650	\$ 939	\$ 7,711	\$ —	\$ —

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During fiscal 2001, we entered into two thirty-six month operating lease agreements for satellite space segment transponders on two satellites that were expected to be launched in late 2002 and be operational by March 2003. Future payments due on such agreements through fiscal 2007 are approximately \$6.0 million. Such satellite space segment services are scheduled to begin when the satellite transponders are commercially operational, as defined in

the agreements. During fiscal 2003, we learned that the vendor had experienced significant delays in the planned launch and operational dates for the satellites. As a result of these delays, we maintained that we had a right to terminate the contracts without cost and have provided notification of such termination. The vendor denied our assertion that we had a right to terminate the contracts without cost. In March 2004, we reached a settlement with the vendor wherein we agreed to terminate the contracts and use our best efforts to purchase new space segment requirements from the vendor, for up to a total contracted value of \$1.0 million. In the event we do not enter into \$1.0 million of new contracts by March 2006, we have agreed to pay the vendor a fixed settlement amount of \$0.2 million, which has been included in the "Contractual Obligations" amounts shown above.

#### Related Party Transactions

During January 2003, pursuant to a letter agreement we consolidated the then outstanding loan and advances receivable from an individual who is a former executive officer and a current employee into a \$0.3 million promissory note. Under the terms of the letter agreement we will forgive the outstanding principal and interest amounts due on the promissory note in five annual installments beginning in January 2004 so long as the former executive officer remains an employee, subject to the terms of the letter agreement. In March 2004, the Company forgave the first installment under the promissory note.

#### Risk Factors

We have a history of operating losses and negative cash flow and our losses may continue.

We have incurred significant net losses since we began operating in August 1994. We incurred net losses of \$1.3 million during the fiscal year ended June 30, 2004, \$19.6 million during the fiscal year ended June 30, 2003 and \$17.3 million during the fiscal year ended June 30, 2002. As of June 30, 2004 our accumulated deficit was \$75.2 million. We anticipate that we may continue to incur net losses, in any particular quarter, due to the timing of significant projects even if we achieve profitability in the fiscal year ending June 30, 2005. Our ability to achieve and maintain profitability will depend upon our ability to generate significant revenues through new profitable customer contracts and the expansion of our existing products and services, including our data communications services. We cannot assure you that we will be able to obtain new profitable customer contracts or generate significant additional revenues from those contracts or any new products or services that we introduce. Even if we become profitable, we may not sustain or increase our profits on a quarterly or annual basis in the future.

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

We derive, and expect to continue to derive, a significant amount of revenues from the sale of satellite ground segment systems and networks. If the long-term growth in demand for communications networks does not continue to return from recent depressed levels, the demand for our satellite ground segment systems and networks may decline or grow more slowly than we expect. As a result, we may not be able to grow our business, our revenues may decline from current levels and our results of operations may be harmed. The demand for communications networks and the products used in these networks is affected by various factors, many of which are beyond our control. For example, the uncertain general economic conditions have affected the overall rate of capital spending by our customers. Also, many companies have found it difficult to raise capital to finish building their communications networks and, therefore, have placed fewer orders with our customers. The economic slowdown 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 networks manufacturers has increased pricing pressures.

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

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

- general political and economic instability in international markets, including the hostilities in Iraq and Afghanistan, could impede our ability to deliver our products and services to customers and harm our results of operations;
- changes in regulatory requirements could restrict our ability to deliver services to our international customers;
- export restrictions, tariffs, licenses and other trade barriers could prevent us from adequately equipping our network facilities;
- differing technology standards across countries may impede our ability to integrate our products and services across international borders;
- protectionist laws and business practices favoring local competition may give unequal bargaining leverage to key vendors in countries where competition is scarce, significantly increasing our operating costs;
- increased expenses associated with marketing services in foreign countries could 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;
- potentially adverse taxes could adversely affect our results of operations;
- complex foreign laws and treaties could affect our ability to compete; and
- difficulties in collecting accounts receivable could adversely affect our results of operations.

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

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

NetSat's future revenues and results of operations are dependent on its execution of its business strategy and development of the market for its current and future services. Despite the settlement agreements which modified and reduced our satellite bandwidth obligations, we cannot assure you that the transponder space will be efficiently and substantially utilized or that an increase in orders will be realized. NetSat has had, and we expect will continue to have, cash requirements, which have and will decrease our cash resources. If NetSat does not efficiently and substantially utilize its transponder space capacity and increase its level of orders, its cash requirements may increase and our results of operations will be harmed.

You should not rely on our quarterly operating results as an indication of our future results because they are subject to significant fluctuations, and if we fail to meet the expectations of public market analysts or investors, our stock price could decline significantly.

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

- delays and/or a decrease in the booking of new contracts;
- general political and economic conditions in the United States and abroad, including hostilities in Iraq and Afghanistan;
- the length of time needed to initiate and complete customer contracts;
- the demand for and acceptance of our existing products and services;
- the cost of providing our products and services, including the ability to ship and install our products and services in hostile areas;
- the cost of performance on fixed price contracts;
- market acceptance of new products and services;
- the mix of revenue between our standard products, custom-built products and our communications services;
- the timing of significant marketing programs;
- our ability to hire and retain additional personnel;
- the competition in our markets; and
- difficult global economic conditions and the currency devaluations in international markets, which have adversely impacted and may continue to adversely impact our quarterly results.

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

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

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

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

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

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

We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through June 30, 2005. However, our future liquidity and capital requirements are difficult to predict, as they depend on numerous factors, including the success of our existing product and service offerings, as well as competing technological and market developments. We may need to raise additional funds in order to meet additional working capital requirements and to support additional capital expenditures. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If adequate funds are unavailable, we may be required to delay, reduce or eliminate some of our operating activities, including marketing programs and research and development programs. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

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

We rely on a small number of customer contracts for a large portion of our revenue. Specifically, we have agreements with six customers to provide equipment and services, from which we expect to generate a significant portion of our revenues. If any of these customers is unable to implement its business plan, the market for these customers' services declines, or if all or any of the customers modifies or terminates its agreement with us, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially 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.

We depend upon certain key personnel and may not be able to retain these employees.

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

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

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

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

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

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

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

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

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

We currently obtain most of our critical components and services from single or limited sources and generally do not maintain significant inventories or have long-term or exclusive supply contracts with our 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, and the cost of minimizing these security breaches could be prohibitively expensive. We may face liability to customers for such security breaches. Furthermore, these incidents could deter potential customers and adversely affect existing customer relationships.

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

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 would have a material adverse effect on our business, results of operations and financial condition.

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

Our stock price is highly volatile.

From July 1, 2003 through June 30, 2004, our closing stock price ranged from a low of \$3.05 per share to a high of \$7.29 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;
- acceptance of satellite-based communication services and Internet access services in developing countries and emerging markets;
- 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

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companies. These broad market fluctuations may adversely affect the trading price of our common stock. Accordingly, we cannot assure you that you will be able to resell the shares of common stock at any particular price, or at all.

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, bylaws 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.

#### Risks Related to Government Approvals

We are subject to many government regulations, and failure to comply with them will harm our business.

#### Operations and Use of Satellites

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate FCC licensed earth stations in Hauppauge, New York, subject to the FCC Act and the rules and regulations of FCC. Pursuant to the FCC Act and rules, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. We have also obtained and are required to maintain authorization issued under Section 214 of the FCC Act to act as a telecommunications carrier, which authorization also extends to NetSat. These licenses should be renewed by the FCC in the normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that the FCC will grant additional licenses when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our earth stations. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our earth stations. In addition, prior to a third party acquisition of us, we would need to seek approval from the FCC to transfer the radio transmission licenses we have obtained to the third party upon the consummation of the acquisition. However, we cannot assure you that the FCC will permit the transfer of these licenses. These approvals may make it more difficult for a third party to acquire us.

#### Foreign Ownership

We may, in the future, be required to seek FCC approval if foreign ownership of our stock exceeds the 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.

#### Foreign Regulations

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

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communications services. The regulatory schemes in each country are different, and thus there may be instances of noncompliance of which we are not aware. We cannot assure you that our licenses and approvals are or will remain sufficient in the view of foreign regulatory authorities, or that necessary licenses and approvals will be granted on a

timely basis in all jurisdictions in which we wish to offer our products and services or that restrictions applicable thereto will not be unduly burdensome.

#### Regulation of the Internet

Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues including user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications. It is anticipated that a substantial portion of our Internet operations will be carried out in countries that may impose greater regulation of the content of information coming into the country than that which is generally applicable in the United States; for example, privacy regulations in 35 countries in Europe and content restrictions in countries such as the 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, do not contemplate or address the unique issues of the Internet and related technologies. Changes to these laws intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace which could reduce demand for our products and services, could increase our cost of doing business as a result of costs of litigation or increased product development costs, or could in some other manner have a material adverse effect on our business, financial condition and results of operations.

#### Telecommunications Taxation, Support Requirements, and Access Charges

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

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

#### Export of Telecommunications Equipment

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

countries could be restricted, which could have a material adverse effect on our business, results of operations and financial condition.

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#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to a variety of risks, including foreign currency exchange rate fluctuations relating to certain purchases from foreign vendors and our wholly-owned subsidiary, Globecomm Systems Europe Limited, which primarily deals in British Pounds Sterling. In the normal course of business, we assess these risks and have established policies and procedures to manage our exposure to fluctuations in foreign currency values.

Our objective to managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. Accordingly, we may utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. During the fiscal years ended June 30, 2004, 2003 and 2002, we had no such foreign currency forward contracts.

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

#### Item 8. Financial Statements and Supplementary Data

The information required by this item is incorporated by reference to the Consolidated Financial Statements listed in Item 15(a) of Part IV of this Annual Report on Form 10-K.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

#### Item 9A. Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out under the supervision and with the participation of senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information that the Company is required to disclose in reports filed under the Securities Exchange Act of 1934, as amended.

There have been no significant changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended) or in other factors during the fiscal quarter and fiscal year ended June 30, 2004 that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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### PART III

#### Item 10. Directors and Executive Officers of the Registrant

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

#### Item 11. Executive Compensation

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

#### Item 12. Security Ownership of Certain Beneficial Owners and Management

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

#### Item 13. Certain Relationships and Related Transactions

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

#### Item 14. Principal Accounting Fees and Services

Information in response to this item is incorporated herein by reference to "Report of the Audit Committee of the Board of Directors" in the Registrant's Proxy Statement to be filed with the SEC.

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### PART IV

#### Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(A) (1) Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of June 30, 2004 and 2003	F-2
Consolidated Statements of Operations for the years ended June 30, 2004, 2003 and 2002	F-3
Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2004, 2003 and 2002	F-4
Consolidated Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002	F-5
Notes to Consolidated Financial Statements	F-6

(2) Index to Consolidated Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts	S-1
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All other schedules for which provision is made in the applicable accounting regulation from the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) Index of Exhibits

Exhibit

No.

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the "Registration Statement")).
- 10.1 Employment Agreement dated as of October 9, 2001 by and between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.2 Employment Agreement dated as of October 9, 2001 by and between the Registrant and Kenneth A. Miller (incorporated by reference to Exhibit 10.10 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.3 The Amended and Restated 1997 Stock Incentive Plan (incorporated by reference to Exhibit 99 of the Registrant's Registration Statement on Form S-8 Registration, File No. 333-112351).
- 10.4 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the Registrant's Registration Statement on Form S-8, File No. 333-70527).
- 10.5 Rights Agreement, dated as of December 3, 1998, between the Registrant and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Registrant's Current Report on Form 8-K, dated December 3, 1998).

## Exhibit

No.

- 10.6 Negotiable Promissory Note, dated April 1, 2001, between the Registrant and Donald Woodring (incorporated by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2001).
- 10.7 Employment Agreement, dated as of October 9, 2001, by and between Stephen C. Yablonski and the Registrant (incorporated by reference to Exhibit 10.20 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.8 Employment Agreement, dated as of October 9, 2001, by and between Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.9 Employment Agreement, dated as of October 9, 2001, by and between Donald G. Woodring and the Registrant (incorporated by reference to Exhibit 10.22 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.10 Employment Agreement, dated as of October 9, 2001, by and between Paul J. Johnson and the Registrant (incorporated by reference to Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.11 Employment Agreement, dated as of October 9, 2001, by and between Paul Eterno and the Registrant (incorporated by reference to Exhibit 10.24 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.12 Promissory Note Secured By Stock Pledge Agreement, dated September 4, 2001, by and between Kenneth A. Miller and the Registrant (incorporated by reference to Exhibit 10.26 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.13\* Settlement Agreement, dated as of October 1, 2002, by and between Loral Skynet, a division of Loral SpaceCom Corporation and the Registrant (incorporated by reference to Exhibit 10.28 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2002).
- 10.14 Separation Agreement and General Release, dated as of January 22, 2003, by and between G. Patrick Flemming and the Registrant (incorporated by reference to Exhibit 10.29 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2002).
- 10.15 Letter Agreement, dated as of January 31, 2003, by and between Donald G. Woodring and the Registrant (incorporated by reference to Exhibit 10.30 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2002).
- 10.16 Loan and Security Agreement, dated as of September 15, 2003, by and between Silicon Valley Bank and the Registrant (incorporated by reference to Exhibit 10.31 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2003).
- 10.17 Loan Modification Agreement, dated as of October 8, 2003, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.18 Second Loan Modification Agreement, dated as of March 2, 2004, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.19 Third Loan Modification Agreement, dated as of June 2, 2004, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.20 Fourth Loan Modification Agreement, dated as of September 24, 2004, by and between Silicon Valley Bank and the Registrant (filed herewith).

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Exhibit

No.

- 10.21 Form of Securities Purchase Agreement, dated as of December 31, 2003, by and between the Registrant and each of the purchasers listed on Exhibit A thereto (incorporated herein by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-3, File No. 333-112024).
- 10.22 Form of Warrant, dated as of December 31, 2003, by and between the Registrant and each of the purchasers listed on Exhibit A thereto (incorporated herein by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-3, File No. 333-112024).
- 14 Registrant's Code of Ethics and Business Conduct (filed herewith).
- 21 Subsidiaries of the Registrant (filed herewith).
- 23 Consent of Independent Registered Public Accounting Firm (filed herewith).
- 31.1 Chief Executive Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.2 Chief Financial Officer Certification required by Rules 13a- 14 and 15d- 14 under the Securities Exchange Act of 1934, as amended (filed herewith).
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002 (filed herewith).

\*Confidential treatment granted for portions of this agreement.

(B) Reports on Form 8-K

We filed a Current Report on Form 8-K dated December 31, 2003, in which we reported under Item 5 that on December 31, 2003, the Company executed definitive agreements for a private placement of equity securities, which resulted in the issuance of 1,500,000 shares of its Common Stock, par value \$0.001 per share, and warrants to purchase up to an aggregate of 750,000 shares of common stock.

(C) Exhibits

The response to this portion of Item 15 is submitted as a separate section of this report.

(D) Financial Statement Schedules

The response to this portion of Item 15 is submitted as a separate section of this report.

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SIGNATURES

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.**



GLOBECOMM SYSTEMS INC.

Date: 9/28/04

By: /s/ DAVID E. HERSHBERG  
David E. Hershberg,  
Chairman of the Board and  
Chief Executive Officer**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.**

Signature	Title	Date
<u>/s/ DAVID E. HERSHBERG</u> David E. Hershberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	9/28/04
<u>/s/ ANDREW C. MELFI</u> Andrew C. Melfi	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	9/28/04
<u>/s/ KENNETH A. MILLER</u> Kenneth A. Miller	President and Director	9/28/04
<u>/s/ STEPHEN C. YABLONSKI</u> Stephen C. Yablonski	Senior Vice President, Sales, Marketing and Product Development and Director	9/28/04
<u>/s/ RICHARD E. CARUSO</u> Richard E. Caruso	Director	9/28/04
<u>/s/ HARRY L. HUTCHERSON Jr.</u> Harry L. Hutcherson Jr.	Director	9/28/04
<u>/s/ BRIAN T. MALONEY</u> Brian T. Maloney	Director	9/28/04
<u>/s/ JACK A. SHAW</u> Jack A. Shaw	Director	9/28/04
<u>/s/ A. ROBERT TOWBIN</u> A. Robert Towbin	Director	9/28/04
<u>/s/ C.J. WAYLAN</u> C.J. Waylan	Director	9/28/04

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Globecomm Systems Inc. (the "Company") as of June 30, 2004 and 2003 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Globecomm Systems Inc. at June 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Melville, New York  
August 9, 2004

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

	June 30, 2004	June 30, 2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,252	\$ 22,016
Restricted cash	1,903	608
Accounts receivable, net	14,318	7,865
Inventories	3,904	10,990
Prepaid expenses and other current assets	1,274	2,040

Deferred income taxes	83	125
Total current assets	49,734	43,644
Fixed assets, net	15,441	17,536
Goodwill	7,204	7,204
Other assets	1,096	1,960
Total assets	\$ 73,475	\$ 70,344
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 15,453	\$ 10,615
Deferred revenues	1,083	7,666
Accrued payroll and related fringe benefits	1,154	1,114
Other accrued expenses	1,676	1,686
Deferred liabilities	316	523
Total current liabilities	19,682	21,604
Deferred liabilities, less current portion	987	1,303
Commitments and contingencies		
Stockholders' equity:		
Series A Junior Participating, shares authorized, shares issued and outstanding: none in 2004 and 2003		
	—	—
Common stock, \$.001 par value, 22,000,000 shares authorized, shares issued 14,628,574 in 2004 and 12,980,108 in 2003	15	13
Additional paid-in capital	130,503	123,739
Accumulated deficit	(75,198)	(73,857)
Accumulated other comprehensive income (loss)	267	(10)
Treasury stock, at cost, 465,351 shares in 2004 and 403,845 shares in 2003	(2,781)	(2,448)
Total stockholders' equity	52,806	47,437
Total liabilities and stockholders' equity	\$ 73,475	\$ 70,344

See accompanying notes.

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

	Years Ended June 30,		
	2004	2003	2002
Revenues from ground segment systems, networks and enterprise solutions	\$ 73,305	\$ 40,125	\$ 64,101
Revenues from data communications services	13,931	13,903	22,478
Total revenues	87,236	54,028	86,579
Costs and operating expenses:			
Costs from ground segment systems, networks and enterprise solutions	63,282	39,447	57,083

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Costs from data communications services	12,992	17,796	26,705
Selling and marketing	4,808	6,042	6,735
Research and development	1,328	800	1,185
General and administrative	6,529	9,423	11,970
Asset impairment charge	—	—	237
Total costs and operating expenses	88,939	73,508	103,915
Loss from operations	(1,703)	(19,480)	(17,336)
Other income (expense):			
Interest income	271	422	1,030
Interest expense	—	(539)	(957)
Gain on sale of available-for-sale securities	91	—	—
Net loss	\$ (1,341)	\$ (19,597)	\$ (17,263)
Basic and diluted net loss per common share	\$ (0.10)	\$ (1.56)	\$ (1.36)
Weighted-average shares used in the calculation of basic and diluted net loss per common share	13,346	12,565	12,707

See accompanying notes.

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GLOBECOMM SYSTEMS INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED JUNE 30, 2004, 2003 AND 2002  
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Treasury Stock		Total Stockholders' Equity
	Shares	Amount		Deficit	(Loss)	Shares	Amount	
Balance at June 30, 2001	12,866	\$ 13	\$ 123,276	\$ (36,997)	\$ (57)	148	\$ (1,094)	\$ 85,141
Proceeds from exercise of stock options	10	—	38	—	—	—	—	38
Issuance of common stock in connection with employee stock purchase plan	57	—	247	—	—	—	—	247
Purchases of treasury stock	—	—	—	—	—	202	(1,173)	(1,173)
Issuance of stock options for services	—	—	37	—	—	—	—	37
Comprehensive loss:								
Net loss	—	—	—	(17,263)	—	—	—	(17,263)
Gain from foreign currency translation	—	—	—	—	128	—	—	128
Loss from available-for-sale securities	—	—	—	—	(115)	—	—	(115)
Total comprehensive loss	—	—	—	—	—	—	—	(17,250)
Balance at June 30, 2002	12,933	13	123,598	(54,260)	(44)	350	(2,267)	67,040
Issuance of common stock in connection with employee stock purchase plan	47	—	141	—	—	—	—	141
Purchases of treasury stock	—	—	—	—	—	54	(181)	(181)

## Comprehensive loss:

Net loss	—	—	—	(19,597)	—	—	—	(19,597)
Gain from foreign currency translation	—	—	—	—	96	—	—	96
Loss from available-for-sale securities	—	—	—	—	(62)	—	—	(62)
Total comprehensive loss	—	—	—	—	—	—	—	(19,563)
Balance at June 30, 2003	12,980	13	123,739	(73,857)	(10)	404	(2,448)	47,437
Proceeds from exercise of stock options	111	—	464	—	—	—	—	464
Issuance of common stock in connection with employee stock purchase plan	38	—	123	—	—	—	—	123
Purchases of treasury stock	—	—	—	—	—	61	(333)	(333)
Issuance of stock options for services	—	—	12	—	—	—	—	12
Issuance of common stock and warrants in connection with private placement, net of issuance costs of \$583	1,500	2	6,165	—	—	—	—	6,167
Comprehensive loss:								
Net loss	—	—	—	(1,341)	—	—	—	(1,341)
Gain from foreign currency translation	—	—	—	—	81	—	—	81
Gain from available-for-sale securities	—	—	—	—	196	—	—	196
Total comprehensive loss	—	—	—	—	—	—	—	(1,064)
Balance at June 30, 2004	14,629	\$ 15	\$ 130,503	\$ (75,198)	\$ 267	465	\$ (2,781)	\$ 52,806

See accompanying notes.

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

	Years Ended June 30,		
	2004	2003	2002
<b>OPERATING ACTIVITIES:</b>			
Net loss	\$ (1,341)	\$ (19,597)	\$ (17,263)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,097	3,532	3,661
Change in deferred liabilities	(523)	(1,834)	19
Gain on termination of capital lease	—	(959)	—
(Benefit) provision for doubtful accounts	(966)	683	3,951
Deferred income taxes	42	13	(138)
Stock compensation expense	12	—	37
Asset impairment charge	—	—	237
Gain on sale of available-for-sale securities	(91)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(5,412)	6,533	6,308

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Inventories	7,465	(2,338)	6,714
Prepaid expenses and other current assets	671	(896)	(443)
Other assets	564	(1,617)	247
Accounts payable	4,656	(2,394)	(2,449)
Deferred revenues	(6,585)	4,125	(2,308)
Accrued payroll and related fringe benefits	37	155	26
Other accrued expenses	(13)	(120)	(1,541)
Net cash provided by (used in) operating activities	1,613	(14,714)	(2,942)
INVESTING ACTIVITIES:			
Purchases of fixed assets	(1,267)	(1,732)	(1,687)
Repayment of promissory note from a related party	300	40	—
Restricted cash	(1,295)	(20)	—
Issuance of promissory notes to related parties	—	—	(700)
Proceeds from the sale of available-for-sale securities	391	—	—
Net cash used in investing activities	(1,871)	(1,712)	(2,387)
FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	464	—	38
Proceeds from private placement	6,167	—	—
Proceeds from sale of common stock in connection with employee stock purchase plan	123	141	247
Purchases of treasury stock	(333)	(181)	(873)
Payments under capital leases	—	(270)	(430)
Net cash provided by (used in) financing activities	6,421	(310)	(1,018)
Effect of foreign currency translation on cash	73	44	17
Net increase (decrease) in cash and cash equivalents	6,236	(16,692)	(6,330)
Cash and cash equivalents at beginning of year	22,016	38,708	45,038
Cash and cash equivalents at end of year	\$ 28,252	\$ 22,016	\$ 38,708
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	\$ —	\$ 539	\$ 957

See accompanying notes.

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GLOBECOMM SYSTEMS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

1. Organization and Description of Business

Globecomm Systems Inc. ("Globecomm") was incorporated in the State of Delaware on August 17, 1994. The Company's core business provides end-to-end, value-added satellite-based communications solutions. This business supplies ground segment systems and networks for satellite-based communications including hardware and software to support a wide range of satellite systems. The Company's wholly-owned subsidiary, NetSat Express, Inc. ("NetSat") provides satellite communication services capabilities.

## 2. Significant Accounting Policies

### Principles of Consolidation

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

### Accounting Estimates

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

### Revenue Recognition

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

The Company recognizes revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for its

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## 2. Significant Accounting Policies (Continued)

non-standard, complex production-type contracts for the production of satellite ground segment systems and equipment that are generally integrated into the customers' satellite ground segment network. The equipment and systems produced in connection with these contracts are typically long-term (in excess of twelve months in term) and require significant customer-specific engineering, drafting and design effort in order to effectively integrate all of the customizable earth station equipment into the customers' ground segment network. These contracts generally have larger contract values, greater economic risks and substantive specific contractual performance requirements due to the engineering and design complexity of such systems and related equipment. Progress payments received in advance by customers are netted against the inventory balances in the accompanying consolidated balance sheets.

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

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

### Costs from Ground Segment Systems, Networks and Enterprise Solutions

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

### Costs from Data Communications Services

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

### Research and Development

Research and development expenditures are expensed as incurred.

### Inventories

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

### Cash Equivalents

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

### Fixed Assets



Fixed assets are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and repairs and maintenance costs are expensed as incurred. Depreciation is calculated

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

2. Significant Accounting Policies (Continued)

using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Amortization of satellite space segment transponders held under capital lease is calculated using the straight-line method over the estimated useful life of the satellite transponder. Amortization of leasehold improvements and leased equipment is calculated using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Fair Value of Financial Instruments

The recorded amounts of the Company's cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of these items.

Stock-Based Compensation

The Company accounts for stock option grants using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure ("SFAS No. 148").

Pro-forma information regarding net loss and net loss per common share is required by SFAS No. 123 and SFAS No. 148, which also requires that the information be determined as if the Company has accounted for its stock options granted subsequent to July 1, 1995 under the fair value method. The fair value of options granted under the Company's 1997 Plan was estimated at date of grant using a Black-Scholes option pricing model with the following assumptions for the years ended June 30, 2004, 2003 and 2002: risk-free interest rate of 3.2% (2004), 3.0% (2003) and 4.2% (2002), volatility factor of the expected market price of the Company's common stock of .79 (2004), .79 (2003) and .75 (2002), a weighted-average expected life of the option of five years and no dividend yields.

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

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

	Years Ended June 30,		
	2004	2003	2002
	(in thousands, except per share data)		
Reported net loss	\$ (1,341)	\$ (19,597)	\$ (17,263)
Pro-forma stock compensation expense	(2,216)	(2,707)	(2,690)
Pro-forma net loss	\$ (3,557)	\$ (22,304)	\$ (19,953)
Reported basic and diluted net loss per common share	\$ (0.10)	\$ (1.56)	\$ (1.36)
Pro-forma basic and diluted net loss per common share	\$ (0.27)	\$ (1.78)	\$ (1.57)

During the years ended June 30, 2004, 2003, and 2002, compensation expense of \$12,000, \$0, and \$37,000 was included in the reported net loss.

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

2. Significant Accounting Policies (Continued)

Goodwill and Other Intangible Assets

Goodwill represents excess of the purchase price over the fair value of the 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.

Long-Lived Assets

For other than goodwill and indefinite life intangibles, when impairment indicators are present, the Company reviews the carrying value of its assets in determining the ultimate recoverability of their unamortized values using future undiscounted cash flows expected to be generated by the assets in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If such assets are considered impaired, the impairment recognized is measured by the amount by which the carrying amount of the asset exceeds the future discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

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

Comprehensive Loss

Comprehensive loss for the years ended June 30, 2004, 2003 and 2002 of approximately \$1,064,000, \$19,563,000 and \$17,250,000, respectively, includes a foreign currency translation gain of approximately \$81,000, \$96,000 and \$128,000, respectively, and an unrealized gain (loss) on available-for-sale securities of approximately \$196,000, (\$62,000) and (\$115,000), respectively.

#### Product Warranties

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

#### 3. Accounts Receivable

Accounts receivable include amounts billed but not paid by customers pursuant to retainage provisions in connection with ground segment systems, networks and enterprise solutions contracts. At June 30, 2004 and 2003, there was \$0 and \$120,000, respectively, billed but not paid by customers under retainage provisions in connection with long-term contracts. Such balances are included in accounts receivable in the accompanying consolidated balance sheets. Based on the Company's experience with similar contracts in recent years, billed receivables relating to long-term contracts are expected to be collected within one year.

Unbilled amounts relating to long-term contracts include recoverable costs and accrued profit on progress completed, which have not been billed. Such amounts are billed in accordance with the contract terms, typically upon shipment of the product, achievement of contractual milestones or completion of the contract. At June 30, 2004 and 2003, there were no unbilled amounts relating to long-term contracts included in the accompanying consolidated balance sheets.

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

#### 4. Inventories

Inventories consist of the following:

	June 30, 2004	June 30, 2003
	(In thousands)	
Raw materials and component parts	\$ 163	\$ 495
Work-in-progress	7,362	10,495
	7,525	10,990
Less progress payments	3,621	—
	\$ 3,904	\$ 10,990

## 5. Fixed Assets

Fixed assets consist of the following:

	June 30, 2004	June 30, 2003
	(In thousands)	
Land	\$ 1,750	\$ 1,750
Building and improvements	6,081	5,992
Computer equipment	3,088	3,003
Machinery and equipment	2,576	2,493
Network Operations Center	7,703	6,848
Satellite earth station equipment	7,869	8,304
Furniture and fixtures	1,344	1,331
	30,411	29,721
Less accumulated depreciation and amortization	14,970	12,185
	\$ 15,441	\$ 17,536

## 6. Goodwill

Effective July 1, 2001, the Company adopted the new rules on accounting for goodwill and other intangible assets. Under the new rules, goodwill and other indefinite life intangible assets are no longer amortized, but instead tested for impairment at least annually. The Company completed its annual goodwill impairment tests during the fourth quarter of fiscal 2004 for both its ground segment systems, networks and enterprise solutions and data communications services reporting units. Based upon the estimated fair market values, no impairment was identified and no write-down of the net carrying value of goodwill was deemed necessary.

In the fourth quarter of fiscal 2002, the Company recognized an impairment charge of approximately \$237,000 in connection with its ground segment systems, networks and enterprise solutions reporting unit, representing the net carrying value of goodwill relating to the acquisition of a wireless local loop telephone network solutions business in fiscal 1999. This charge is included in costs and operating expenses in the accompanying consolidated statement of operations for the fiscal year ended June 30, 2002.

The net carrying value of goodwill is approximately \$7,204,000 at June 30, 2004 and 2003, which relates to the data communications services reporting unit.

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

## 7. Common Stock

#### Warrants Issued to Consultants

During November 1996, the Company issued a ten-year warrant to five consultants for services to purchase an aggregate of 64,125 shares of common stock at a price per share of \$8.07, equal to the fair market value of the shares at the date of issuance. At June 30, 2004, warrants to purchase 55,825 shares of the Company's common stock noted above are outstanding and exercisable.

#### Treasury Stock

The Company has a stock repurchase program under which the Company is authorized to repurchase up to \$2.0 million of its outstanding common stock. Pursuant to this plan, the Company repurchased approximately 61,000, 54,100, and 202,000 shares of common stock in fiscal 2004, 2003 and 2002, at an aggregate cost of approximately \$333,000, \$181,000 and \$1,173,000, respectively. Included in the fiscal 2004 repurchases was approximately 61,000 shares repurchased at a fair market price of \$5.41 per share from the Company's President (see Note 11). Included in the fiscal 2002 repurchases was 200,000 shares repurchased at a fair market price of \$5.82 per share from the Company's Chief Executive Officer (see Note 11). The repurchase program allows for purchases to be made intermittently, through open market and privately negotiated transactions. Timing, price, quantity and manner of purchases are at the discretion of the Company's management, depending on market conditions and other factors, subject to compliance with the applicable securities laws.

#### Private Placement

On December 31, 2003, the Company completed a private placement transaction of equity securities and issued 1,500,000 shares of common stock at a price of \$4.50 per share for an aggregate price of \$6,750,000 and issued warrants to purchase up to 750,000 shares of common stock at an exercise price of \$5.50 per share. The warrants became exercisable on July 1, 2004 and will expire on December 31, 2008. The Company incurred total expenses of approximately \$583,000, of which approximately \$456,000 represented placement agent commissions and approximately \$127,000 represented other expenses. After deducting total expenses, the net proceeds received by the Company in January 2004 were approximately \$6,167,000.

#### 8. Stock Option and Stock Purchase Plans

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

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

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

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

8. Stock Option and Stock Purchase Plans (Continued)

The 1997 Plan provides for an automatic increase to the number of options authorized for grant by an amount equal to 1% of the shares of common stock outstanding on the last trading day of each calendar year. During fiscal 2004, 2003 and 2002, the Company increased the number of options authorized for grant under the 1997 Plan pursuant to the automatic 1% provision by 140,763, 125,644, and 127,529, respectively. At June 30, 2004, the remaining options available for grant under the 1997 Plan was 269,090.

On September 23, 1998, the Board of Directors adopted, and the stockholders subsequently approved, the 1999 Employee Stock Purchase Plan ("1999 Plan"). Pursuant to the 1999 Plan, 400,000 shares of the Company's common stock will be reserved for issuance. The 1999 Plan is intended to provide eligible employees of the Company, and its participating affiliates, the opportunity to acquire an interest in the Company at 85% of fair market value at date of issuance through participation in the payroll-deduction based employee stock purchase plan. During the years ended June 30, 2004, 2003 and 2002, the Company issued 37,684, 47,046 and 56,821 shares of its common stock to participating employees in connection with the 1999 Plan. At June 30, 2004, the remaining shares available for issuance under the 1999 Plan was 159,282.

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

	2004		Years Ended June 30, 2003		2002	
	Shares Under Option	Weighted- Average Exercise Price	Shares Under Option	Weighted- Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Balance, beginning of year	3,127	\$ 7.51	2,914	\$ 8.07	2,382	\$ 9.28
Grants	470	3.55	449	3.70	734	4.79
Exercised	(111)	4.19	—	—	(10)	3.56
Canceled	(127)	8.09	(236)	7.11	(192)	10.86
Balance, end of year	3,359	7.05	3,127	7.51	2,914	8.07
Exercisable, end of year	2,149	\$ 8.51	1,821	\$ 8.69	1,401	\$ 8.87
Weighted-average fair value of options granted during the year		\$ 2.35		\$ 2.40		\$ 3.05

The following table summarizes information about stock options outstanding at June 30, 2004 (in thousands, except per share amounts):

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

8. Stock Option and Stock Purchase Plans (Continued)

Range of Exercise Price	Number Outstanding	Options Outstanding Weighted-Average		Options Exercisable	
		Contractual Life (Years)	Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.47 - \$1.47	6	9.5	\$ 1.47	—	—
\$3.10 - \$4.42	1,175	8.3	\$ 3.80	268	\$ 4.14
\$4.68 - \$7.02	749	4.7	\$ 5.44	587	\$ 5.36
\$7.09 - \$10.63	973	5.0	\$ 7.91	862	\$ 7.98
\$10.69 - \$15.75	283	4.8	\$ 12.84	259	\$ 13.01
\$17.13 - \$25.25	155	5.4	\$ 21.19	155	\$ 21.19
\$28.00 - \$28.00	18	5.6	\$ 28.00	18	\$ 28.00
	3,359	6.1	\$ 7.05	2,149	\$ 8.51

The Company has reserved approximately 5,241,000 shares of its common stock for issuance upon exercise of all available and outstanding options and warrants at June 30, 2004.

9. Basic and Diluted Net Loss Per Common Share

The Company computes net loss per share in accordance with the provisions of SFAS No. 128, Earnings Per Share. Basic and diluted net loss per common share is computed by dividing the net loss for the period by the weighted-average number of common shares outstanding for the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of preferred stock (using an if-converted method) and incremental shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Incremental common equivalent shares are excluded from the calculation of diluted net loss per share, as their effect is anti-dilutive. Diluted net loss per share for the years ended June 30, 2004, 2003 and 2002, excludes the effect of approximately 312,000, 0 and 172,000 incremental stock options, respectively, as their effect would have been anti-dilutive. There were no incremental warrants for the years ended June 30, 2004, 2003 and 2002, to exclude from diluted net loss per share.

10. Pension Plan

The Company maintains a 401(k) plan, which covers substantially all employees of the Company. Participants may elect to contribute from 1% to 75% of their pre-tax compensation, subject to elective deferral limitations under Section 403 of the Internal Revenue Code. The plan allows for a matching contribution equal to the discretionary percentage of a participating employee not to exceed 4% of their compensation by the Company. The Company contributed approximately \$0, \$460,000 and \$470,000 to the 401(k) plan during the years ended June 30, 2004, 2003 and 2002, respectively. In addition, the plan also provides for discretionary profit sharing contributions by the Company. There were no discretionary profit sharing contributions made by the Company during the years ended June 30, 2004, 2003 and 2002.

11. Related Party Transactions

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

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

11. Related Party Transactions (Continued)

During fiscal 2002, the Company advanced \$300,000 to an officer of the Company. The Company received a promissory note payable on September 30, 2004, which bears interest at an annual rate of 5.0% payable quarterly, and secured by a stock pledge agreement. On November 12, 2003, the officer sold approximately 61,000 shares of the Company's common stock at a fair market price of \$5.41 per share to the Company in connection with its stock repurchase program. On November 12, 2003, the officer paid approximately \$333,000 to the Company to satisfy all amounts outstanding on the promissory note, together with accrued interest thereon. At June 30, 2003, the principal amounts outstanding under this promissory note are included in other assets and accrued interest receivable thereon is included in other current assets in the accompanying consolidated balance sheets.

During fiscal 2001, the Company advanced \$200,000 to a former executive officer of the Company. The Company received a promissory note payable on December 31, 2002 for this advance, which bore interest at an annual rate of 5.0% payable quarterly. During fiscal 2002, the Company increased the \$200,000 loan to \$300,000 and amended the promissory note accordingly. During fiscal 2003, this former executive officer resigned from the board of directors and pursuant to a letter agreement (the "agreement") the Company consolidated the then outstanding loan and advances receivable from this former executive officer and current employee of the Company into a \$321,000 promissory note. Under the terms of the letter agreement the Company will forgive the outstanding principal and interest amounts due on the promissory note in five annual installments beginning in January 2004 so long as the former executive officer remains an employee of the Company, subject to the terms of the agreement. At June 30, 2004 and 2003, the annual installment to be forgiven within one year along with accrued interest outstanding under this promissory note was included in other current assets in the accompanying consolidated balance sheet. The remaining principal amounts to be forgiven subsequent to one year are included in other assets in the accompanying consolidated balance sheet.

During fiscal 2001, the Company advanced \$40,000 to an officer of the Company. The Company received a promissory note payable on December 31, 2002 for this advance, which bore interest at an annual rate of 5.0% payable quarterly. During fiscal 2003, the officer repaid the principal and accrued interest outstanding in full and satisfied the promissory note.

12. Income Taxes



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

During fiscal 2004 and 2003, the Company recorded a tax provision of approximately \$45,000 and \$15,000 which was recorded in general and administrative expenses. During fiscal 2002 the Company recorded a tax benefit of \$372,000 relating to state investment tax credits. During fiscal 2002, approximately \$75,000 of the tax benefit was recorded as an offset to state and local capital taxes, approximately \$138,000 was recorded as an offset to the foreign income tax provision recorded by Globecomm Systems Europe Limited and the remaining \$159,000 was recorded as a reduction in general and administrative expenses in the accompanying consolidated statement of operations.

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

## 12. Income Taxes (Continued)

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

	June 30, 2004	June 30, 2003
(In thousands)		
Deferred tax assets:		
Net operating loss carryforwards	\$ 29,241	\$ 27,092
Accruals and reserves	1,828	2,827
Write-down of investments	806	806
State investment tax credit carryforwards	83	125
	31,958	30,850
Valuation allowance for deferred tax assets	(28,623)	(27,574)
	3,335	3,276
Deferred tax liabilities:		
Depreciation and amortization	(3,180)	(3,096)
Projects in progress	(72)	(55)
	(3,252)	(3,151)
Net deferred tax assets	\$ 83	\$ 125

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income prior to the expiration of any net operating loss carryforwards. Due to the uncertainty regarding the Company's ability to utilize its net operating losses in the future, the Company has provided a valuation allowance against its operating losses and temporary differences except for approximately

\$83,000 representing state investment tax credit carryforwards that will be utilized to offset state capital taxes on the Company's state tax return.

For the years ended June 30, 2004, 2003 and 2002, the valuation allowance increased approximately \$1,049,000, \$4,417,000 and \$5,756,000, respectively. Approximately \$2,148,000 of the remaining valuation allowance, if recognized, will be allocated directly to stockholders' equity relating to non-qualified dispositions of stock option exercises.

The Company has available net operating loss carryforwards of approximately \$73,103,000, which are due to expire beginning in 2015 through 2024. Utilization of the net operating loss carryforwards may be subject to an annual limitation pursuant to the ownership change limitations provided by the Internal Revenue Code and similar state provisions.

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

	Years Ended June 30,		
	2004	2003	2002
Tax at U.S. Federal statutory rate	(34)%	(34)%	(34)%
Losses for which no tax benefit was received	34	34	34
State taxes	—	—	—
	—%	—%	—%

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

13. Segment Information

The Company operates through two business segments. Its ground segment systems, networks and enterprise solutions segment, through Globecomm Systems Inc. and Globecomm Systems Europe Limited, is engaged in the design, assembly and installation of ground segment systems and networks. Its data communications services segment, through NetSat, provides satellite communication services capabilities.

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

The following is the Company's business segment information as of and for the years ended June 30, 2004, 2003 and 2002:

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	Years Ended June 30,		
	2004	2003	2002
	(In thousands)		
Revenues:			
Ground segment systems, networks and enterprise solutions	\$ 73,305	\$ 40,125	\$ 64,101
Data communications services	13,931	13,903	22,478
Total revenues	\$ 87,236	\$ 54,028	\$ 86,579
Loss from operations:			
Ground segment systems, networks and enterprise solutions	\$ (870)	\$ (12,548)	\$ (7,149)
Data communications services	(849)	(6,946)	(10,155)
Interest income	271	422	1,030
Interest expense	—	(539)	(957)
Gain on sale of available-for-sale securities	91	—	—
Intercompany eliminations	16	14	(32)
Net loss	\$ (1,341)	\$ (19,597)	\$ (17,263)
Depreciation and amortization:			
Ground segment systems, networks and enterprise solutions	\$ 1,402	\$ 1,595	\$ 1,598
Data communications services	1,711	1,951	2,075
Intercompany eliminations	(16)	(14)	(12)
Total depreciation and amortization	\$ 3,097	\$ 3,532	\$ 3,661

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

13. Segment Information (Continued)

	Years Ended June 30,		
	2004	2003	2002
	(In thousands)		
Expenditures for long-lived assets:			
Ground segment systems, networks and enterprise solutions	\$ 354	\$ 187	\$ 935
Data communications services	915	1,585	752
Intercompany eliminations	(2)	(40)	—
Total expenditures for long-lived assets	\$ 1,267	\$ 1,732	\$ 1,687
	June 30,	June 30,	June 30,
	2004	2003	2002
	(In thousands)		
Assets:			
Ground segment systems, networks and enterprise solutions	\$ 125,534	\$ 118,180	\$ 123,484
Data communications services	11,501	10,405	20,106

Intercompany eliminations	(63,560)	(58,241)	(43,293)
Total assets	\$ 73,475	\$ 70,344	\$ 100,297

At June 30, 2004, 2003 and 2002, the Company had total assets of approximately \$2,547,000, \$3,177,000 and \$2,012,000, and long-lived assets of approximately \$100,000, \$56,000 and \$32,000, respectively, located in the United Kingdom, associated with its wholly-owned subsidiary, Globecomm Systems Europe Limited.

#### 14. Significant Customers and Concentrations of Credit Risk

The Company designs, assembles and installs satellite ground segment systems, networks and enterprise solutions for customers in diversified geographic locations. Credit risk with respect to accounts receivable is concentrated due to the limited number of customers. The timing of cash realization is determined based upon the contract or service agreements with the customers. The Company performs ongoing credit evaluations of its customers' financial condition and in most cases requires a letter of credit or cash in advance for foreign customers. The Company evaluates the collectibility of accounts receivable based on numerous factors, including past transaction history with customers and their credit worthiness. The Company's estimate of its allowance for doubtful accounts is periodically adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations, or as a result of changes in the overall aging of accounts receivable. Allowances related to accounts receivable at June 30, 2004, 2003 and 2002, are approximately \$2,618,000, \$4,805,000 and \$4,683,000, respectively.

One major customer accounted for approximately 11% of the Company's consolidated revenues for the years ended June 30, 2004 and 2002. No major customer accounted for more than 10% of the Company's consolidated revenues for the year ended June 30, 2003.

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

#### 14. Significant Customers and Concentrations of Credit Risk (Continued)

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

	Years Ended June 30,		
	2004	2003	2002
Africa	9%	7%	3%
South America	3%	13%	9%
Asia	13%	16%	16%
Europe (15% in the UK in 2002)	18%	14%	31%
Middle East	19%	12%	14%
Australia	—	1%	2%

62% 63% 75%

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The Company places its cash and cash equivalents with high quality financial institutions. Substantially all cash and cash equivalents are held in one and three financial institutions at June 30, 2004 and 2003, respectively. Cash equivalents are comprised of short-term debt instruments and certificates of deposit of direct or guaranteed obligations of the United States, which are held to maturity and approximate fair market value. At times, cash may be in excess of Federal Deposit Insurance Company insurance limits.

## 15. Commitments and Contingencies

### Line of Credit

At June 30, 2004, the Company maintained a \$10,500,000 working capital line of credit with a bank, which bore interest at the greater of 6.0% or the prime rate plus 2.0% per annum, and is collateralized by a first security interest on all personal property of the Company. The credit facility, which expires in September 2004, contains certain financial covenants, with which the Company was in compliance at June 30, 2004. As of June 30, 2004, no amounts were outstanding under this credit facility, however, there were outstanding standby letters of credit, bid proposals and performance guarantees of approximately \$8,650,000, which were applied against and reduced the amounts available under the working capital line of credit. The Company will be advanced up to 80% of eligible domestic accounts receivable, 90% of eligible foreign accounts receivable under the line of credit, and 50% of the unrestricted cash held at the bank as defined in the agreement. The Company is currently negotiating a new credit facility with the existing bank. The current agreement has been extended until October 31, 2004, while the terms of a new agreement are finalized.

The Company provides cash collateral for certain letters of credit. As of June 30, 2004 and 2003, the Company had cash collateral related to bid proposals of approximately \$0 and \$20,000, respectively, and cash collateral related to performance guarantees of approximately \$1,903,000 and \$588,000, respectively. These amounts are included in restricted cash in the accompanying consolidated balance sheets.

### Lease Transactions

In connection with management's plan to reduce costs, the Company entered into a series of agreements that resulted in a reduction of its satellite bandwidth obligations, as follows:

In April 2001, the Company renegotiated a 15-year satellite space segment transponder lease entered into by NetSat during fiscal 2000, which changed the terms and economics of the agreement and resulted

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

## 15. Commitments and Contingencies (Continued)

in a change in accounting for such lease from capital to operating. Accordingly, the change in accounting reduced the Company's capital lease obligations by approximately \$84,261,000 with a corresponding reduction in net fixed assets of approximately \$80,620,000, resulting in a deferred liability of approximately \$3,641,000, which was being amortized into income over the remaining term of the lease. During the year ended June 30, 2002, NetSat amortized \$300,000 of the deferred liability into income which is included as a credit to costs from data communications services, resulting in a balance of approximately \$3,341,000 in deferred liabilities in the accompanying consolidated balance sheet at June 30, 2002.

In June 2002, NetSat amended the renegotiated satellite space segment transponder lease to reduce the short-term cash commitment under such agreement in exchange for a twelve-month extension of the lease term. As a result of this modification, the Company will record the remaining lease commitment on a straight-line basis over the remaining term of the transponder lease. Accordingly, during 2002, the Company recorded a deferred liability of \$319,000, to reflect the straight-lining of such lease payments. Such amount is included in deferred liabilities in the accompanying consolidated balance sheet at June 30, 2002.

In October 2002, the Company reached an agreement with one of its satellite transponder vendors, which further modified and reduced the Company's satellite bandwidth obligations. Under the terms of this agreement, the Company paid \$7,574,000, which included a one-time termination fee of \$3,586,000, and \$3,988,000, which primarily related to outstanding invoices and an additional security deposit, assigned \$31,573,000 of future contract revenues to the vendor and reduced the Company's future space segment obligations by \$52,209,000. Accordingly, the Company recorded a charge to costs from data communications services of \$782,000 in the second quarter of fiscal 2003, representing the difference between the \$3,586,000 termination fee and the corresponding reduction in the deferred liability of \$2,804,920, which was to be amortized into income over the remaining term of the lease. At June 30, 2004, the remaining balance in deferred liabilities relating to this lease was \$1,303,000, which will be amortized into income over the remaining term of the lease.

In February 2003, the Company reached an agreement with another of its satellite transponder vendors, which terminated its capital lease and continued the reduction of the Company's satellite bandwidth obligations. Under the terms of this agreement, the Company paid a one-time termination fee of \$556,000, assigned \$4,557,000 of future contract revenues to the vendor and reduced the Company's future space segment obligations by \$16,563,000. The difference between the reduction of capital lease obligation of \$9,835,000 and the reduction of the related net fixed assets of \$8,876,000 or \$959,000, less the one-time termination fee of \$556,000 was recorded as a deferred gain of \$403,000. The gain was deferred as the Company had guaranteed six months of revenues assigned to the vendor. If the assigned revenues are not paid to the vendor, the Company will be responsible to satisfy the obligation. The deferred liability will be amortized into income monthly when the guaranteed payments are satisfied. During the fourth quarter of fiscal 2003, based on confirmation of payments received by the vendor, the Company amortized \$196,000 of the deferred liability into income which is included as a credit to costs from data communications services, resulting in a balance of approximately \$207,000 in deferred liabilities in the accompanying consolidated balance sheet at June 30, 2003. During fiscal 2004, based on confirmation of payments received by the vendor, the Company amortized \$207,000 of the deferred liability into income which is included as a credit to costs from data communications services, resulting in a balance of approximately \$0 in deferred liabilities in the accompanying consolidated balance sheet at June 30, 2004.

#### Lease Commitments

The Company currently leases satellite space segment services, office space, teleport services and other equipment under various operating leases, which expire in various years through 2009. As leases expire, it can be expected that in the normal course of business they will be renewed or replaced. Most lease agreements contain renewal options.

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

15. Commitments and Contingencies (Continued)

Future minimum lease payments under non-cancelable operating leases for satellite space segment services, Internet access services, teleport services, office space and other equipment with terms of one year or more consist of the following at June 30, 2004 (in thousands):

2005	\$	5,691
2006		5,125
2007		3,912
2008		2,320
2009		662
	\$	17,710

Rent expense for satellite space segment services, Internet access services, teleport services, office space and other equipment was approximately \$5,343,000, \$8,256,000 and \$17,082,000 for the years ended June 30, 2004, 2003 and 2002, respectively.

During fiscal 2001, the Company entered into two thirty-six month operating lease agreements for satellite space segment transponders on two satellites that were expected to be launched in late 2002 and operational by March 2003. Future payments due on such agreements through fiscal 2007 are approximately \$6,000,000. Such satellite space segment services are scheduled to begin when the satellite transponders are commercially operational, as defined in the agreements. During fiscal 2003, the Company learned that the vendor has experienced significant delays in the planned launch and operational dates for the satellites. As of result of these delays, the Company maintains that it has a right to terminate the contracts without cost and has provided notification of such termination. The vendor denied the Company's assertion that it had a right to terminate the contracts without cost. In March 2004, the Company reached a settlement with the vendor wherein it agreed to terminate the contracts and use its best efforts to purchase new space segment requirements from the vendor, for up to a total contracted value of \$1.0 million. In the event the Company does not enter into \$1.0 million of new contracts by March 2006, it has agreed to pay the vendor a fixed settlement amount of \$0.2 million, which has been included in the future minimum lease payment amounts shown above.

Employment Agreements

During October 2001, the Company entered into three-year employment agreements with six officers and one former officer for an aggregate amount of approximately \$1,214,000 per year. The Company will have certain obligations to these individuals if they are terminated. Each employment agreement renews automatically for additional terms of one year, unless either party provides written notice to the other party of its intention to terminate the agreement. During fiscal 2004, the Board of Directors approved increases bringing the aggregate amount to approximately \$1,400,000 per year.

During January 2002, the Company entered into a three-year employment agreement with an officer for an amount of \$275,000 per year. The Company had certain obligations to this officer if terminated. The employment agreement provided that it renewed automatically for additional terms of one year, unless either party provided written notice to the other party of its intention to terminate the agreement. In January 2003, the Company entered into a separation agreement and general release whereby the employment relationship with this officer was terminated. In accordance with the terms of this agreement, the Company agreed to pay the officer severance of \$450,000, consisting of a lump sum payment of \$250,000 and an additional \$200,000 to be paid monthly for thirty-six months beginning in July 2003, based on certain conditions defined in the agreement. During the year ended June 30, 2004, payments of approximately \$67,000 were made.

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GLOBECOMM SYSTEMS INC.  
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions		Defuctions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
Year ended June 30, 2004:					
Reserves and allowances deducted from asset accounts:					
Reserve for estimated doubtful accounts receivable	\$ 4,805,000	\$ (966,000)(a)	\$ —	\$ (1,221,000)(c)	\$ 2,618,000
Valuation allowance on deferred tax assets	27,574,000	—	1,049,000(b)	—	28,623,000
	\$ 32,379,000	\$ (966,000)	\$ 1,049,000	\$ (1,221,000)	\$ 31,241,000
Year ended June 30, 2003:					
Reserves and allowances deducted from asset accounts:					
Reserve for estimated doubtful accounts receivable	\$ 4,683,000	\$ 683,000	\$ —	\$ (561,000)(c)	\$ 4,805,000
Valuation allowance on deferred tax assets	23,157,000	—	4,417,000(b)	—	27,574,000
	\$ 27,840,000	\$ 683,000	\$ 4,417,000	\$ (561,000)	\$ 32,379,000
Year ended June 30, 2002:					
Reserves and allowances deducted from asset accounts:					
Reserve for estimated doubtful accounts receivable	\$ 1,065,000	\$ 3,951,000	\$ —	\$ (333,000)(c)	\$ 4,683,000
Valuation allowance on deferred tax assets	17,401,000	—	5,756,000(b)	—	23,157,000
	\$ 18,466,000	\$ 3,951,000	\$ 5,756,000	\$ (333,000)	\$ 27,840,000

(a)Recovery of accounts receivable balances (net of charges).



(b) Increase in valuation allowance for net deferred tax assets.

(c) Reduction in allowance due to write-off of accounts receivable balances (net of recovery).

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Index of Exhibits

Exhibit  
No.

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the "Registration Statement")).
- 10.1 Employment Agreement dated as of October 9, 2001 by and between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.2 Employment Agreement dated as of October 9, 2001 by and between the Registrant and Kenneth A. Miller (incorporated by reference to Exhibit 10.10 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.3 The Amended and Restated 1997 Stock Incentive Plan (incorporated by reference to Exhibit 99 of the Registrant's Registration Statement on Form S-8 Registration, File No. 333-112351).
- 10.4 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the Registrant's Registration Statement on Form S-8, File No. 333-70527).
- 10.5 Rights Agreement, dated as of December 3, 1998, between the Registrant and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Registrant's Current Report on Form 8-K, dated December 3, 1998).
- 10.6 Negotiable Promissory Note, dated April 1, 2001, between the Registrant and Donald Woodring (incorporated by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2001).
- 10.7 Employment Agreement, dated as of October 9, 2001, by and between Stephen C. Yablonski and the Registrant (incorporated by reference to Exhibit 10.20 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.8 Employment Agreement, dated as of October 9, 2001, by and between Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.9 Employment Agreement, dated as of October 9, 2001, by and between Donald G. Woodring and the Registrant (incorporated by reference to Exhibit 10.22 of the Registrant's Quarterly

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

Exhibit  
No.

- 10.10 Employment Agreement, dated as of October 9, 2001, by and between Paul J. Johnson and the Registrant (incorporated by reference to Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.11 Employment Agreement, dated as of October 9, 2001, by and between Paul Eterno and the Registrant (incorporated by reference to Exhibit 10.24 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.12 Promissory Note Secured By Stock Pledge Agreement, dated September 4, 2001, by and between Kenneth A. Miller and the Registrant (incorporated by reference to Exhibit 10.26 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.13\* Settlement Agreement, dated as of October 1, 2002, by and between Loral Skynet, a division of Loral SpaceCom Corporation and the Registrant (incorporated by reference to Exhibit 10.28 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2002).
- 10.14 Separation Agreement and General Release, dated as of January 22, 2003, by and between G. Patrick Flemming and the Registrant (incorporated by reference to Exhibit 10.29 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2002).
- 10.15 Letter Agreement, dated as of January 31, 2003, by and between Donald G. Woodring and the Registrant (incorporated by reference to Exhibit 10.30 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended December 31, 2002).
- 10.16 Loan and Security Agreement, dated as of September 15, 2003, by and between Silicon Valley Bank and the Registrant (incorporated by reference to Exhibit 10.31 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2003).
- 10.17 Loan Modification Agreement, dated as of October 8, 2003, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.18 Second Loan Modification Agreement, dated as of March 2, 2004, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.19 Third Loan Modification Agreement, dated as of June 2, 2004, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.20 Fourth Loan Modification Agreement, dated as of September 24, 2004, by and between Silicon Valley Bank and the Registrant (filed herewith).
- 10.21 Form of Securities Purchase Agreement, dated as of December 31, 2003, by and between the Registrant and each of the purchasers listed on Exhibit A thereto (incorporated herein by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-3, File No. 333-112024).
- 10.22 Form of Warrant, dated as of December 31, 2003, by and between the Registrant and each of the purchasers listed on Exhibit A thereto (incorporated herein by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-3, File No. 333-112024).
- 14 Registrant's Code of Ethics and Business Conduct (filed herewith).
- 21 Subsidiaries of the Registrant (filed herewith).

Exhibit

No.

- 23 Consent of Independent Registered Public Accounting Firm (filed herewith).
- 31.1 Chief Executive Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.2 Chief Financial Officer Certification required by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended (filed herewith).
- 32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002 (filed herewith).

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\*Confidential treatment granted for portions of this agreement.

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