GLOBECOMM SYSTEMS INC
Form 10-K
September 28, 2001

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

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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

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

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

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

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. [ ]

While it is difficult to determine the number of shares owned by non-affiliates, the registrant estimates that the aggregate market value of outstanding common stock on September 25, 2001, based upon the average bid and asked prices of such common stock on the Nasdaq National Market on September 25, 2001 held by non-affiliates was approximately $64.8 million. For this computation, the registrant has excluded the market value of all shares of its common stock reported as beneficially owned by officers, directors and certain significant stockholders. Such exclusion shall not be deemed to constitute an admission that any such stockholder is an affiliate of the registrant.

As of September 25, 2001, there were outstanding 12,717,846 shares of the registrant's common stock, par value $.001.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement of Globecomm Systems Inc. relative to the 2001 Annual Meeting of Stockholders to be held on November 15, 2001, 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

We offer end-to-end, value-added satellite-based communications infrastructure and services. We do this by leveraging our core satellite ground segment systems and networks capabilities, and the satellite services capabilities that are generally provided by our wholly-owned subsidiary, NetSat Express, Inc. The services we offer include wide area network connectivity, broadband connectivity to end users, Internet connectivity, intranet extension, media distribution and other network services on a global basis. To provide these services, we engineer all the necessary satellite and terrestrial facilities as well as provide the integration services required to implement those facilities. We also operate and maintain these communications services on an ongoing basis. Our customers generally have operations in areas of the world where high-speed terrestrial links are unreliable, too costly, or not readily available and include communications service providers, multinational corporations, Internet Service Providers, or ISPs, content providers and government entities. Our service business is built on the foundation of our core business as a supplier of ground segment systems and networks for satellite-based communications. We provide these ground segment systems and networks on a contract basis. These implementations include the necessary hardware and software to support a wide range of satellite communications applications using fixed satellite, direct broadcast and mobile satellite systems.

NetSat Express is a leader in providing end-to-end satellite-based Internet solutions around the world. NetSat Express offers start-up and expanding ISPs and other enterprises a wide range of solutions, including Internet backbone connectivity, network applications, back-office capabilities, POP infrastructure, Web hosting and network management services.

INDUSTRY OVERVIEW

Satellite communications systems consist of satellites, or the space segment, and ground-based transmitting and receiving systems, or the ground segment. The space segment consists of one or more satellites orbiting the earth, which typically provide continuous communications coverage over a wide geographic area. Satellites usually contain multiple transponders, each capable of independently receiving and transmitting one or more signals from and to multiple users simultaneously. A transponder is a device that receives signals from transmitting earth stations, translates these received signals into transmit signals and amplifies and transmits these signals to receiving earth stations. The ground segment consists principally of one or more earth stations, which provide a communications link to the end user either directly or through a terrestrial network. 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.

Satellite communications is a rapidly growing segment of the global communications infrastructure. Satellites are increasingly becoming important in light of the growth of the Internet and other broadband applications and the globalization of communications. New broadband satellite systems offer services similar to newly built broadband terrestrial systems.

Satellite communications industry participants include:

o designers, manufacturers and operators of satellites;

o designers, manufacturers and integrators of ground segment products, systems and networks; and

o communications services providers, which may or may not own the actual satellites used for transmission.

The three principal classes of satellite services include:

FIXED SATELLITE SERVICES. Fixed satellite services are used to provide communications applications like voice, data and video between fixed land-based earth stations. These applications include Internet access, business to business communications, Internet Protocol-based telephony services and cable and broadcast television distribution. The introduction of high-power satellites that deliver a wide array of broadband applications has created additional growth within the fixed satellite services segment. This is enabled by the use of smaller, less costly earth stations, including very small aperture terminals. Future higher bandwidth systems are expected to increase the number of applications and further reduce the cost of providing satellite services. We believe these systems will offer the additional bandwidth needed for emerging broadband communications applications.

DIRECT BROADCAST SERVICES. Direct broadcast satellite services provide a direct transmission link from high-power satellites to customers over a wide geographic area. These services deliver content cost-effectively by incorporating the use of smaller satellite receiving antennas and digital video technology, particularly in areas underserved by cable. These services are used in direct-to-home television services and are increasingly being used in direct broadcast data services.

MOBILE SATELLITE SERVICES. Mobile satellite services, which operate between fixed earth stations and mobile earth stations, or terminals, provide mobile voice and data transmission capability on land, sea and air. New mobile satellite services are being developed using satellite systems that orbit at different altitudes above the earth. These satellite systems are designed to bring more extensive coverage and circuit reliability for mobile telephone and data services to users throughout the world.

ADVANTAGES OF SATELLITES OVER TERRESTRIAL ALTERNATIVES

We believe satellites provide the following advantages over terrestrial alternatives for broadband applications:

- Satellites enable high-speed communications services where terrestrial alternatives are unavailable or inadequate. Many areas of the world lack the sophisticated fiber optic cable and digital switching infrastructure required for the high-speed transmission of data. Satellites are well suited to connect these areas that cannot be connected efficiently or cost-effectively by terrestrial transmission systems.

- Satellite networks can be rapidly installed, upgraded and reconfigured. In contrast, the installation of fiber optic cable is time consuming and requires obtaining rights-of-way.

- Satellite networks bypass much of the often complex terrestrial networks. This avoids the service level issues related to potential terrestrial network congestion as well as the use of multiple network service providers.

- Satellite networks, because of their broadcast nature, are inherently capable of multicasting, or transmitting data simultaneously from one point to multiple locations.

- Satellite networks, in some situations, are more cost-effective than terrestrial alternatives where the flow of data traffic to the user is greater than the flow of data from the user. For example, an Internet user wanting to access a web site sends a small bandwidth request to a content server that returns a high bandwidth response, which is the web page viewed. Capacity can go unused on many terrestrial

networks due to this uneven flow of traffic whereas satellite networks are capable of providing capacity on an imbalanced, or asymmetric, basis.

- The cost to provide satellite services does not increase with the distance between sending and receiving locations. In contrast, the cost of terrestrial network transmission increases with distance.

INDUSTRY TRENDS

Continuing worldwide deregulation of telecommunications services market

Many countries are deregulating their telecommunications services markets in response to growing consumer and business demands, international competition, and technological developments. The Global Agreement on Trade in Services administered by the World Trade Organization provides for the deregulation of telecommunications markets in the 75 countries, which have signed the agreement. These countries include developed countries in North

America, Western Europe, and Asia and developing countries in Africa, Asia, and Central and South America. Deregulation is creating opportunities for new companies to compete with the incumbent national telecommunications companies. These new companies will need to build communications infrastructure and/or buy communications services. We believe this trend toward deregulation is favorable to the growth of satellite services, as new service providers can establish their own infrastructure faster and generally at a lower cost with satellite communications services than with terrestrial alternatives.

Economic development worldwide and the increasing globalization of business

We believe that as multinational corporations globalize and expand into new markets, the demand for diverse and customized communications services will continue to grow. For many large national or multinational companies operating in geographically dispersed locations, satellite networks provide the only opportunity for broadband connectivity as the capacity, quality or availability of terrestrial infrastructure is often limited or nonexistent in many of these locations. We believe that these corporations, including those operating in sectors including energy and transportation, which have continually changing global network needs, will expand their use of satellite-based communications.

Growth of the Internet outside North America and Western Europe

The growth of the Internet has been dramatic, and this growth is projected to continue, particularly outside North America and Western Europe. Satellite-based communications are benefiting from this trend as many of these regions lack the terrestrial networks required to accommodate the rapid and reliable transmission of the vast amounts of information underlying the Internet. We believe the development of communications infrastructure in much of the world will in large part depend upon the rapid installation of satellite communications services. Satellite-based communications services, in some situations, are better suited than terrestrial alternatives to cost-effectively address the imbalance of traffic flows inherent in international Internet usage today because they provide capacity on an asymmetric basis.

New Internet technology-based applications

CORPORATE INTRANETS AND VIRTUAL PRIVATE NETWORKS. The technologies which have been developed for the Internet have been used in the creation of private corporate networks, or intranets. Intranets provide employees in geographically dispersed locations with access to corporate databases and other private corporate information. There is a rapidly growing marketplace for intranet services in the United States and other developed countries, as corporations have recognized their benefits. In parts of the world where land-based networks are inadequate or unavailable, we believe intranets represent a rapidly growing market for satellite-based communications services. The growth of intranets is being supported by the evolution of

virtual private network technology and services that ensure the security of sensitive corporate data when transmitted over the Internet or other shared networks. Virtual private networks offer the appearance, functionality and usefulness of a dedicated private network at a lower cost because they use shared networks. Furthermore, virtual private networks not only allow access to internal corporate information, but can also be used to provide telephony services using Internet Protocol and to transmit video or a combination of any of these three.

CONTENT DELIVERY SERVICES AND MULTICASTING. Content providers and large ISPs are increasingly using content delivery services that can enhance access to multimedia and static content for their users and enhance web site response times by avoiding delays and outages caused by public network congestion. One implementation being used to improve web site response times involves broadcasting data simultaneously to geographically dispersed servers that are closer to the person requesting the information, thereby avoiding potential congestion that could occur on standard terrestrial networks. This broadcasting of data from one location to many locations is known as multicasting. Satellite multicasting is not only used for content delivery services as described above, but also for the transmission of multimedia content in real time.

Increased distribution of television programming to regional, national and international audiences

Significant growth in the number of broadcasters creating programming and the number of channels available to viewers is largely responsible for the expansion of the global cable and broadcast television markets. The introduction of digital television technology has also contributed to the growth in this market by reducing the transmission costs for channels reaching smaller and more distant audiences.

We believe that the number of smaller programmers will continue to increase as transmission costs decline, while major programmers will increase their offerings by expanding the number of regional channels and specialized versions of their primary channels. Satellites offer advantages in providing enhanced television to rural markets given the cost and time to install traditional cable and fiber optic infrastructure.

Continuing technological advancements

We believe a number of technological advances will stimulate demand for satellite-based communications services:

- INTERNET PROTOCOL. Internet Protocol is transforming the communications industry by allowing all forms of communications to be carried in one format using a standard protocol. Therefore, Internet Protocol allows for the transmission of voice, video, and data on a single network. These networks use bandwidth efficiently, thereby reducing transmission costs and allowing for enhanced applications. We believe the reduction in transmission costs and enhanced applications will continue to stimulate demand for communications services worldwide including satellite-based services.

- ENHANCEMENTS IN SATELLITE TECHNOLOGY HELP REDUCE COSTS. The latest generation of satellites has up to three times more power than satellites launched in the early 1990s. As technology improves, satellites in the future will be even more powerful and longer-lived than current satellites. In addition, we believe satellites in the future will carry more transponders and therefore provide more transmission capacity. We expect these new satellites will decrease the cost of capacity, thereby increasing the demand for satellite-based communications services.

- KA-BAND TECHNOLOGY. The Ka-band transponders will offer five to ten times the bandwidth of today's transponders. Ka-band technology typically uses smaller, more high-powered spot beams, which allow for smaller ground antennas and lower cost per data transmitted. The use of Ka-band technology is expected to lead to less expensive capacity and increase the demand for satellite-based communications.

- BROADBAND TECHNOLOGY. Broadband technology, increasingly available on fiber optic networks, sophisticated urban cable networks and through high-bandwidth telephone line technologies, is creating demand for robust applications like delivery of multimedia content that narrow-band technologies cannot satisfy. We believe that satellites can provide the principal means to deliver broadband applications beyond the geographical limitations of both existing and future broadband terrestrial networks.

- COMPRESSED DIGITAL VIDEO. Compressed digital video technology is designed to compress up to ten high-quality video channels in the same bandwidth that previously carried a single analog channel. This technology has lowered the costs of delivering programming via satellite and cable television systems, thereby permitting more programming options to be provided to smaller niche markets.

SERVICES AND PRODUCTS

OUR COMMUNICATIONS SERVICES

We offer end-to-end, value-added satellite-based communications infrastructure and services. We engineer and provide 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. We tailor these 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.

The following describes some of our standardized services:

WIDE AREA NETWORK ANYWHERE(TM). This service offering provides high speed networking between major communications points of presence, or POPs. We are currently providing this service for Telefonica Data of Spain, connecting POPs in Sao Paulo, Lima, Bogota and Santiago in South America to Hauppauge, New York. This is an example of using this standardized service as a building block in a custom-engineered solution.

INTRANET ANYWHERE(TM). This service offering provides secure high-speed data transmission directly to local area networks using standards-based satellite receiver technology. We intend to offer this service to customers requiring secure high-speed data transmission between corporate headquarters and one or more remote offices.

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

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

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

THE CHALLENGE. We were selected by Mercury Communications, Inc., a new communications service provider in Angola, to design and implement the voice, data and Internet infrastructure as well as the connections between Angola and the United States, where the existing communications infrastructure was inadequate.

THE SOLUTION. We designed and continue to build a nationwide voice and data telecommunications network using a combination of satellite systems, terrestrial microwave systems and local wireless communications technology. In addition, we provided Mercury with the information technology infrastructure necessary to provide Internet access from the United States Internet backbone to Soyo and Luanda, Angola using satellites. We also provide international satellite connections for voice and data traffic between Soyo and Luanda, and Houston, Texas as well as the associated billing services. The voice and data satellite network we custom-engineered is based on a combination of network technologies, each designed to enhance delivery of a particular service. We currently provide network services to operate and maintain these communications services.

[DIAGRAM OF MERCURY COMMUNICATIONS, INC. NETWORK DEPICTING THE COMMUNICATIONS SYSTEM INFRASTRUCTURE THAT PROVIDES PHONE SERVICE CONNECTIVITY AND INTERNET CONNECTIVITY FOR USERS IN ANGOLA USING TERRESTRIAL CONNECTIONS AND WIRELESS LOCAL LOOP CONNECTIONS WITH THE U.S. PUBLIC TELEPHONE NETWORK AND THE U.S. INTERNET BACKBONE USING A SATELLITE THAT TRANSMITS TO AND FROM EARTH STATIONS IN THE UNITED STATES AND ANGOLA.]

OUR GROUND SEGMENT SYSTEMS AND NETWORKS

We design, engineer, integrate and install satellite-based ground segment system and network solutions for the complex and changing communications requirements of our customers. Our ground segment systems typically consist of an earth station and ancillary subsystems. An earth station is an integrated system consisting of antennas, radio signal transmitting and receiving equipment, modulation/demodulation equipment, monitor and control systems and voice, data and video network interface equipment. Ancillary subsystems may include microwave links or fiber optic links, for the transmission of communications traffic to a central office, or generators for emergency power requirements. Our customizable modular earth stations may be sold separately as stand-alone ground segment systems or may be used as building blocks to be integrated into a complete ground segment system or network. We

believe that this modular approach allows us to engineer our ground segment systems and networks to serve client-specific service requirements rapidly, cost-effectively and efficiently with minimal site preparation. All of our earth stations are configurable to conform to applicable satellite standards.

CUSTOMIZABLE MODULAR EARTH STATIONS

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

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

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

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

EXPLORER II MOBILE TERMINALS. We designed this family of digital terminals to serve the mobile satellite services market for high-speed data and voice terminals with optional video conferencing. We offer the Explorer II, a high speed data terminal for use in news gathering, emergency communications, data gathering, and other applications requiring mobility and data at rates of 64 Kbps. We typically sell these earth stations at prices ranging from approximately $20,000 to $50,000.

NETSAT EXPRESS SERVICES

NetSat Express is an ISP that offers Internet access and related services to ISPs and other enterprises around the world. NetSat Express combines satellite and terrestrial communications networks to provide customers around the world high-speed access services to the United States Internet backbone. NetSat Express currently has customers in Africa, the Pacific Rim region, Australia, Central and South America, Eastern and Central Europe and the Middle East.

Internet Access Services

NetSat Express' Internet access service, marketed under the Access Plus(TM) brand name, provides high-speed access to the United States Internet backbone. NetSat Express provides the necessary satellite transmission services and terrestrial transit and routing services. In addition, it currently provides earth stations and the necessary installation services together with Globecomm. NetSat Express' services are highly configurable, providing guaranteed levels of service for its customers. Its services can be implemented through its worldwide network, and global deployment capabilities through suppliers like Globecomm. NetSat Express provides a wide variety of circuit sizes, which allows it to serve large and small ISPs, communications services providers and corporations. A circuit is comprised of satellite and

terrestrial components that provide the bandwidth needed by the customer. NetSat Express' customers lease circuits as small as 64 Kbps and as large as 45 Mbps, where a megabit is 1000 times larger than a kilobit. NetSat Express offers two-way circuits, providing bandwidth to and from the Internet, as well as one-way circuits, where the customer has its own return circuit through a local terrestrial connection to the Internet.

NetSat Express also provides a bandwidth capacity bursting option, allowing bursts of up to the full capacity of a satellite circuit. With bursting, the customer's guaranteed bandwidth is a part of a shared satellite channel with other customers who also have guaranteed bandwidths. The bursting service allows a customer to acquire more bandwidth than its guarantee when there is available bandwidth on the same shared satellite channel that NetSat Express has not committed to other customers.

NetSat Express' Strategic Relationships

NetSat Express has developed a number of strategic relationships that are expected to provide it with access to services and technology that complements its strategy. An agreement with Globix Corporation provides quality access to the United States Internet backbone and hosting facilities. A re-marketing agreement with IBM provides NetSat Express with access to technology and marketing assistance in the delivery of ISP-related hardware and software solutions. These agreements all complement NetSat Express' strategy to facilitate the development of ISPs around the world.

SALES AND MARKETING

We market our products and services to communications services providers, multinational corporations, ISPs, content providers and government entities. We have structured our sales and marketing approach to respond effectively to the growing 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.

We use regional business teams to sell and market our communications services and ground segment systems and networks. These 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 finally, for account management of our existing customers. Currently, we have business teams responsible for the Americas, the Asia-Pacific region, Africa, the Middle East and Europe. These regional business teams work together to identify, develop and maintain customer relationships through local sales representatives, sales executives and account managers. Together, they develop close and continuing relationships with our customers. Our sales representatives in these regions provide a local presence and identify prospective customers for our sales executives. Our account managers may also function as project engineers for network integration and service initiation programs for their accounts. We believe this account management focus provides continuity and loyalty between us and our customers. 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.

We also sell to industry-specific markets through direct and indirect sales channels. These industry-specific markets currently include the oil industry, the broadcast industry and the United States government. We intend to expand our direct and indirect sales and marketing efforts to these industry-specific markets.

We have sales and marketing staff located at our headquarters in Hauppauge, New York, as well as in Hong Kong and the United Kingdom. Our office in the United Kingdom is part of our wholly-owned subsidiary, Globecomm Systems Europe Limited. These offices provide both sales and technical support in the regions for which they have responsibility. As of June 30, 2001, we employed 46 persons with sales and

marketing responsibility, of which 17 are full-time sales executives and 29 have dual engineering and sales and marketing responsibilities.

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

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

CUSTOMERS

We have established a diversified base of customers in a variety of industries. Our customers include communications services providers, multinational corporations, ISPs, content providers and government entities. We typically rely upon a small number of customers for a large portion of our revenues. For example, approximately 11% of our revenues in fiscal 2001 were derived from sales to one customer. We expect that in the near term a significant portion of our revenues will continue to be derived from one or a limited number of customers (the identity of whom may vary from year to year) as we seek to expand our business and customer base.

BACKLOG

At June 30, 2001, our backlog was approximately $101.0 million compared to approximately $100.1 million at June 30, 2000. We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped but have not been accepted by the customer. Our backlog at any given time is not necessarily indicative of future period revenues. A substantial portion of our backlog has been 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, 2001, $44.2 million, or approximately 43.8%, of our backlog represented contracts with five customers. We cannot assure you that these contracts or any others in our backlog will not be cancelled or revised. See "Risk Factors" beginning on page 28.

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.

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

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

NetSat Express has built and staffs a network operations center, or NOC, to manage its customer circuits. The NOC operates 24 hours per day, seven days per week to monitor customer circuits, respond to customer inquiries and initiate new services. Customers can purchase or lease from us or, from NetSat Express, as a part of its service the equipment needed at the customers' locations to transmit and receive the satellite signals. Globecomm Systems offers 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. Project teams generally consist of between two and 10 employees and may include engineers, integration specialists, buyer-planners and an operations team. Our products and system design capabilities are used in the engineering and design phases of a project. Once a system is designed, the integration specialist works with the buyer-planner and the operations team to assure a smooth transfer from the engineering phase to the integration phase. The integration phase consists mainly of integrating the purchased equipment, components and subsystems into a complete functioning system. Assembly, integration and test operations are conducted on both an automated and manual basis, depending primarily on production volume.

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

RESEARCH AND DEVELOPMENT

We have outsourced much of our research and development by making strategic investments in some of our suppliers who perform research and development for us. Thus, the costs of developing new technologies are funded partially by the investments made in these strategic suppliers. This provides us with a cost-effective means to develop new technology, while minimizing our direct expenditures. Furthermore, we believe that outsourcing research and development allows us to retain our flexibility in developing solutions for our customers, while at the same time providing the opportunity to develop products through our strategic supplier relationships. Our internal research and development efforts generally focus on the development of products not available from other suppliers to the industry. Current efforts are focused on developing customizable systems. For the years ended June 30, 1999, 2000 and 2001, we have incurred approximately $1.3 million, $0.8 million, and $0.9 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 reputation and the ability to provide a solution that meets the customer's requirements, including competitive pricing, performance, on-time delivery, reliability, and customer support.

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

Our primary competitors in the satellite ground segment systems and networks market generally fall into three groups: (1) vertically integrated satellite systems providers like Nippon Electric Corporation (2) system integrators like IDB Systems, a division of MCI WorldCom Inc. and (3) equipment manufacturers who also provide integrated systems like Andrew Corporation and Vertex-RSI.

In the communications services and Internet access services markets, we compete with other satellite communication companies who provide similar services, like Loral CyberStar, Inc., PanAmSat Corporation and Verestar, as well as other Internet services providers. In addition, we may compete with other communications services providers like Teleglobe, Inc. and MCI WorldCom Inc. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. In addition, we anticipate that continuing deregulation worldwide is expected to result in the formation of a significant number of new competitive service providers over the next two 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 two patents in the United States, for remote access to the Internet using satellites and for satellite communication with automatic frequency control and have two patent applications pending in the United States. We also intend to seek further patents on our technology, if appropriate. We have filed applications for trademark registration of Globecomm Systems Inc., Globecomm, and GSI in the United States and various other countries. NetSat Express has received trademark registration for NetSat Express in the United States, the European Community, Russia, and Brazil. We have also received trademark registrations in the United States for MBB2001(TM), CTF2001(TM), CES2001(TM) and AXXSYS(TM), which relate to our customizable modular earth stations. We intend to seek registration of other trademarks and service marks in the future.

GOVERNMENT REGULATIONS

OPERATIONS AND USE OF SATELLITES

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communications Commission, or FCC, licensed earth stations in Hauppauge, New York, subject to the Communications Act of 1934, as amended (the "Act"), and the rules and regulations of the FCC. Pursuant to the Act and rules and regulations, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. These licenses should

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

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

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

COMMON CARRIER REGULATION

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

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

FOREIGN OWNERSHIP

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

We may, in the future, be required to seek FCC approval for foreign ownership if we operate as a common carrier and ownership of our stock exceeds the thresholds mentioned above. Failure to comply with these policies may result in an order to divest the offending foreign ownership, fines, denial of license renewal, and/or license revocation proceedings against the licensee by the FCC. We have no knowledge of any present foreign ownership, which would result in a violation of the FCC rules and regulations.

FOREIGN REGULATIONS

Regulatory schemes in countries in which we may seek to provide our satellite-delivered data communications services may impose impediments on our operations. Some countries in which we operate and 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 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 restrictions applicable thereto 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 Express' 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 including the Republic of China. To the extent that we provide content as a part of our Internet services, it will be subject to laws regulating content. Moreover, the adoption of laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our Internet services or increase our cost of doing business or 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 Express' 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 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 or the facilities of our customers.

EXPORT OF TELECOMMUNICATIONS EQUIPMENT

The sale of our ground segment systems, networks, and communications service solutions outside the United States is subject to compliance with the regulations of the United States Export Administration Regulations. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In addition, in order to ship our products or implement our services into some countries, these products or services must satisfy the technical requirements of that 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, 2001, we had 224 full-time employees, including 107 in engineering and program management, 63 in the manufacturing, operations support, and network operations, 17 in sales and marketing, and 37 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 approximately 122,000 square feet of space in a facility on approximately seven acres located at 45 Oser Avenue, Hauppauge, New York. This facility houses our principal offices and production facilities as well as offices and the network operations center of NetSat Express. We are in the second year of a five-year lease at a base monthly rent of approximately $3,600 for office and operations facilities for our wholly-owned subsidiary, Globecomm Systems Europe Limited, in the United Kingdom. In addition, we have a lease for office space in Hong Kong at a monthly rental fee of approximately $3,900.

ITEM 3. LEGAL PROCEEDINGS

On July 26, 2000, we filed a lawsuit against Gilat Satellite Networks Ltd. and StarBand Communications Inc. in the United States District Court for the Eastern District of New York, charging them with infringement of our United States Patent No. 5,912,883. The defendants have denied infringement, and have challenged the validity of the patent.

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

None

PART II

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

Our common stock is quoted on the Nasdaq National Market under the symbol "GCOM." The fiscal 2000 and 2001 high and low sales prices are as follows:

	High	Low
First Quarter Fiscal 2001.............	$ 16.06	$ 9.25
Second Quarter Fiscal 2001............	14.25	4.31
Third Quarter Fiscal 2001.............	13.69	7.38
Fourth Quarter Fiscal 2001............	10.75	6.06
First Quarter Fiscal 2000.............	10.91	8.00
Second Quarter Fiscal 2000............	26.00	9.75
Third Quarter Fiscal 2000.............	41.13	19.50
Fourth Quarter Fiscal 2000............	26.75	10.50

At September 25, 2001, 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 25, 2001, our market price per share was $5.74.

As of June 30, 2001, 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 effective date for the registration statement (Registration No. 333-30808) filed on Form S-3 (the "S-3 Registration Statement") under the Securities Act of 1933, as amended, for our secondary offering was March 30, 2000. The class of securities sold was common stock. The offering commenced on April 4, 2000 and all securities were sold in the offering. The managing underwriters for the offering were ING Barings LLC and C.E. Unterberg, Towbin.

Pursuant to the S-3 Registration Statement, we registered and sold 2,000,000 shares of our common stock for an aggregate offering price of $54,000,000. We incurred total expenses in the offering of approximately $3,903,000, of which approximately $3,240,000 represented underwriting discounts and commissions and approximately $663,000 represented other expenses. All such payments were direct or indirect payments to third parties. The net offering proceeds to us after deducting the total expenses was approximately $50,097,000.

From the effective date of the S-3 Registration Statement to June 30, 2001, the net offering proceeds were used to fund a revolving credit facility for up to $15.0 million to NetSat Express, for our working capital and general corporate purposes.

On March 30, 2001, we issued 233,334 shares of our common stock, a warrant to purchase an additional 262,501 shares of common stock and approximately $581,000 in cash in exchange for 2,000,000 shares of Series A participating preferred stock and 333,334 shares of common stock of NetSat Express from a minority stockholder. We issued the shares of common stock and the warrant above pursuant to Rule 501 of Regulation D ("Rule 501") of the Securities Act of 1933, as amended.

During April and May 2001, we issued 484,570 shares of our common stock, warrants to purchase an additional 545,142 shares of our common stock and approximately $1,212,000 in cash in exchange for 4,845,704 shares of common stock of NetSat Express from certain minority stockholders. We issued the shares of common stock and the warrant above pursuant to Rule 501 of the Securities Act of 1933, as amended.

The effective date for the registration statement (Registration No. 333-61904) filed on Form S-3 under the Securities Act of 1933, as amended, was May 30, 2001. The class of securities registered was common stock. Pursuant to this S-3 registration statement, we registered 1,525,547 shares, which are held by some of our current stockholders. This amount includes 807,643 shares of common stock issuable upon exercise of warrants to purchase common stock held by some of our current stockholders. The Company incurred total expenses in the offering of approximately $237,000, which represented legal, accounting and other professional expenses.

ITEM 6. SELECTED FINANCIAL DATA

The Company's selected consolidated financial data as of and for each of the five years in the period ended June 30, 2001 have been derived from our audited consolidated financial statements. In the following table, pro forma basic and diluted net loss per share for the year ended June 30, 1997, is based on the weighted-average number of shares of common stock outstanding including the conversion of the Class A and Class B Convertible Preferred Stock into common stock, which occurred upon the consummation of the Company's initial public offering. However, in accordance with Staff Accounting Bulletin 98 of the Securities and Exchange Commission, options to purchase common stock for nominal consideration have been reflected in diluted loss per share for all periods presented in a manner similar to a stock split, even if anti-dilutive. Historical losses per share have not been presented because such amounts are not deemed meaningful due to the significant change in the Company's capital structure, which occurred in connection with the initial public offering. EBITDA represents loss before minority interests in operations of our consolidated subsidiary, interest income, interest expense, provision for income taxes, depreciation and amortization expense, a gain on the sale of consolidated subsidiary's common stock and a gain on sale of investment. EBITDA does not represent cash flows defined by accounting principles generally accepted in the United States and does not necessarily indicate that our cash flows are sufficient to fund all of our cash needs. EBITDA is a financial measure commonly used in our industry and should not be considered in isolation or as a substitute for net income, cash flows from operating activities or other measures of liquidity determined in accordance with accounting principles generally accepted in the United States. EBITDA may not be comparable to other similarly titled measures of other companies. The Company records an order in backlog when it receives a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped but have not been accepted by the customer. The Company's backlog at any given time is not necessarily indicative of future period revenues.

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

	YEARS ENDED JUNE		
	1997	1998	1999
STATEMENTS OF OPERATIONS DATA:			
Revenues	$ 36,220	$ 58,105	$ 49,058
Costs of revenues	32,060	49,532	43,516
Gross profit	4,160	8,573	5,542
Operating expenses:			
Network operations	-	-	514
Selling and marketing	3,282	4,187	5,183
Research and development	649	1,188	1,325
General and administrative	3,449	5,010	6,040
Terminated acquisition costs	-	-	972
Asset impairment charge	-	-	679
Restructuring charge	-	-	-
Total operating expenses	7,380	10,385	14,713
Loss from operations	(3,220)	(1,812)	(9,171)
Other income (expense):			
Interest income	298	1,271	980
Interest expense	(22)	(5)	(1)
Gain on sale of consolidated subsidiary's common stock	-	-	-
Gain on sale of investment	-	-	-
Loss before income taxes and minority interests in operations of consolidated subsidiary	(2,944)	(546)	(8,192)
Provision for income taxes	-	-	-
Loss before minority interests in operations of consolidated subsidiary	(2,944)	(546)	(8,192)
Minority interests in operations of consolidated subsidiary	275	-	-
Net loss	$ (2,669)	$ (546)	$ (8,192)
Basic and diluted net loss per common share		$ (0.06)	$ (0.90)
Weighted-average shares used in the calculation of basic and diluted net loss per common share		8,553	9,109
Pro forma basic and diluted net loss per common share (unaudited)	$ (0.44)		
Shares used in the calculation of pro forma basic and diluted net loss per common share (unaudited)	6,086		

	YEARS ENDED JUNE		
	1997	1998	1999
OTHER OPERATING DATA:			
EBITDA	$ (2,858)	$ (1,096)	$ (7,904)
Cash flows used in operating activities	(1,958)	(5,678)	(4,408)
Cash flows used in investing activities	(8,221)	(7,342)	(4,435)
Cash flows provided by (used in) financing activities	11,908	29,198	(555)
Capital expenditures, net of non-cash capital lease expenditures	6,765	3,678	3,818
Backlog at end of year	40,807	43,572	63,746

	JUNE 30,		
	1997	1998	1999
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 5,164	$ 31,342	$ 11,944
Working capital	6,379	31,461	19,450
Total assets	38,921	60,617	61,653
Long-term liabilities	18	-	-
Minority interests in consolidated subsidiary	-	-	-
Series A Participating Preferred stock of consolidated subsidiary	-	-	-
Total stockholders' equity	15,996	44,014	36,257

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

This Annual Report on Form 10-K contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed in "Risk Factors" as well as those discussed elsewhere in this Annual Report on Form 10-K.

OVERVIEW

Since our inception, a majority of our revenues have been generated by ground segment systems, networks and enterprise solutions business. Contracts for these ground segment systems and networks and communications services have been fixed-price contracts in virtually all cases. Profitability of such contracts is subject to inherent uncertainties as to the cost of performance. In addition to possible errors or omissions in making initial estimates, cost overruns may be incurred as a result of unforeseen obstacles including both physical conditions and unexpected problems encountered in engineering design and testing. Since our business may at times be concentrated in a limited number of large contracts, a significant cost overrun on any contract could have a material adverse effect on our business, financial condition and results of operations. The period from contract award through installation of ground segment systems and networks and communications services supplied by us generally is from three to twelve months.

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

We use the percentage-of-completion method of accounting to recognize revenue for our long-term (in excess of twelve months in term), more complex production-type contracts that are generally integrated into complete ground segment networks, upon the achievement of certain contractual milestones, in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts.

NetSat Express' revenues are derived primarily from Internet access service fees and sales of hardware and equipment. Service revenues from Internet access are recognized ratably over the period in which

services are provided. Sales of hardware and equipment are recognized upon shipment. Payments received in advance of providing Internet access services are deferred until the period such services are provided and are presented as deferred revenue.

Contract costs generally include purchased material, direct labor, overhead and other indirect costs. Anticipated contracted losses are recognized as they become known. Costs of revenues consist primarily of the costs of purchased materials, direct labor and related overhead expenses, project-related travel, living costs and subcontractor salaries. In addition, cost of revenues relating to Internet access service fees consists primarily of satellite space segment charges and Internet connectivity fees. Network operations expenses consist primarily of costs associated with the operation of NetSat Express' network operations center on a twenty-four hour a day, seven day a week basis including personnel and related costs. Selling and marketing expenses consist primarily of salaries, travel and living costs for sales and marketing personnel. Research and development expenses consist primarily of salaries and related overhead expenses paid to engineers. General and administrative expenses consist of expenses associated with our management, finance, contract and administrative functions. We anticipate that network operations expenses and research and development expenses will continue to increase during the next several years due to expected increases in personnel and related expenses to support our increasing service base.

RESULTS OF OPERATIONS

The following table sets forth certain operating data as a percentage of total revenues for the years indicated:

	YEARS ENDED JUNE 30,	
	1999	2000
PERCENTAGE OF TOTAL REVENUES:		
Revenues	100.0 %	100.0 %
Costs of revenues	88.7	85.6
Gross profit	11.3	14.4
Operating expenses:		
Network operations	1.0	2.4
Selling and marketing	10.6	7.8
Research and development	2.7	1.0
General and administrative	12.3	13.2
Terminated acquisition costs	2.0	-
Asset impairment charge	1.4	-
Restructuring charge	-	-
Total operating expenses	30.0	24.4
Loss from operations	(18.7)	(10.0)
Other income (expense):		
Interest income	2.0	2.1
Interest expense	-	(3.2)
Gain on sale of consolidated subsidiary's common stock	-	3.0
Gain on sale of investment	-	-
Loss before income taxes and minority interests in operations of consolidated subsidiary	(16.7)	(8.1)
Provision for income taxes	-	-
Loss before minority interests in operations of consolidated subsidiary	(16.7)	(8.1)
Minority interests in operations of consolidated subsidiary	-	3.5
Net loss	(16.7) %	(4.6) %

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FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

Revenues. Revenues increased by $24.3 million, or 31.0% from $78.6 million for the fiscal year ended June 30, 2000 to $102.9 million for the fiscal year ended June 30, 2001. The increase reflects strong growth in revenues generated by NetSat Express from additional service revenues derived from new and existing Internet access service customers as well as an increase in revenues generated by Globecomm Systems' core infrastructure business.

Gross Profit. Gross profit increased by $7.9 million, or 70.2%, from $11.3 million for the fiscal year ended June 30, 2000 to $19.3 million for the fiscal year ended June 30, 2001. The increase reflects increased revenues generated by NetSat Express from additional service revenues derived from new and existing Internet access service customers and an increase in shipments in the domestic satellite infrastructure business. Gross profit as a percentage of revenues increased from 14.4% for the fiscal year ended June 30, 2000 to 18.7% for the fiscal year ended June 30, 2001. This increase is mainly attributable to an increase in NetSat Express' gross profit as a result of higher utilization of network capacity. Included in cost of revenues for the fiscal year ended June 30, 2001 is a one-time restructuring charge of $0.5 million related to fees incurred in connection with the termination of certain NetSat Express leased transponders. We expect our gross profit margins to decline in the future due to the under-utilization of NetSat Express' satellite transponder space.

Network Operations. Network operations expenses increased by $3.3 million, or 169.1%, from $1.9 million for the fiscal year ended June 30, 2000 to $5.2 million for the fiscal year ended June 30, 2001. The increase is due to the continuing expansion of NetSat Express' network operations center and related expenses to support the increasing service base.

Selling and Marketing. Selling and marketing expenses increased by $1.1 million, or 17.9%, from $6.1 million for the fiscal year ended June 30, 2000 to $7.2 million for the fiscal year ended June 30, 2001. This increase is attributable to an increase in NetSat Express' sales and marketing efforts to penetrate into new regions.

Research and Development. Research and development expenses increased by $0.1 million, or 8.4%, from $0.8 million for the fiscal year ended June 30, 2000 to $0.9 million for the fiscal year ended June 30, 2001. This increase is due to NetSat Express' research and development efforts for potential new products.

General and Administrative. General and administrative expenses increased by $4.2 million, or 40.6%, from $10.4 million for the fiscal year ended June 30, 2000 to $14.6 million for the fiscal year ended June 30, 2001. General and administrative expenses as a percentage of revenues increased from 13.2% for the fiscal year ended June 30, 2000 to 14.2% for the fiscal year ended June 30, 2001. The increase in general and administrative expenses for the fiscal year ended June 30, 2001 primarily resulted from an increase in NetSat Express' amortization expense related to capital leases entered into during fiscal 2000 for satellite space segment transponders and an increase in NetSat Express' personnel, including expenses related to its management team.

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

Restructuring Charge. The restructuring charge of $2.0 million for the fiscal year ended June 30, 2001 relates to management's plan to reduce costs and improve NetSat's operating efficiencies. The components of the restructuring charge include $0.9 million for severance payments to terminated NetSat employees, $0.6 million for costs associated with terminated NetSat financing activities and $0.5 million for the discontinuance of certain NetSat product lines.

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

Interest Expense. Interest expense increased by $4.1 million, or 160.9%, from $2.5 million for the fiscal year ended June 30, 2000 to $6.6 million for the fiscal year ended June 30, 2001. This increase relates to NetSat Express' capital lease obligations entered into during fiscal year 2000 for satellite space segment transponders.

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

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

NetSat Express. Our consolidated subsidiary, NetSat Express, experienced an increase in revenues of $15.2 million, or 170.5%, from $9.0 million for the fiscal year ended June 30, 2000 to $24.2 million for the fiscal year ended June 30, 2001. The increase resulted from additional service revenues derived from new and existing Internet access service customers. Net loss for NetSat Express increased by $9.3 million, or 130.6%, from $7.1 million for the fiscal year ended June 30, 2000 to $16.4 million for the fiscal year ended June 30, 2001. The increase is primarily due to an increase in general and administrative expenses associated with an increase in amortization expense related to capital leases entered into during fiscal 2000 for satellite space segment transponders, an increase in personnel, including expenses related to developing its management team, an increase in selling and marketing efforts to penetrate into new regions and an increase in network operation expenses due to expansion of NetSat Express' network operations center and related expenses to support the increasing service base and the restructuring charge.

FISCAL YEARS ENDED JUNE 30, 1999 AND 2000

Revenues. Revenues increased by $29.5 million, or 60.2%, from $49.1 million for the fiscal year ended June 30, 1999 to $78.6 million for the fiscal year ended June 30, 2000. The increase reflects increased shipments for both international and domestic projects and an increase in revenues generated by NetSat Express.

Gross Profit. Gross profit increased by $5.8 million, or 104.4%, from $5.5 million for the fiscal year ended June 30, 1999 to $11.3 million for the fiscal year ended June 30, 2000. The increase reflects increased shipments for both international and domestic projects and an increase in revenues generated by NetSat Express. Gross profit as a percentage of revenues increased from 11.3% for the fiscal year ended June 30, 1999 to 14.4% for the fiscal year ended June 30, 2000. This increase is mainly attributable to an increase in the NetSat Express gross profit for the fiscal year ended June 30, 2000 compared to the comparable period in the prior year.

Network Operations. Network operations expenses increased by $1.4 million, or 274.7%, from $0.5 million for the fiscal year ended June 30, 1999 to $1.9 million for the fiscal year ended June 30, 2000. The increase is due to the continuing expansion of NetSat Express' network operations center and related expenses to support the increasing service base.

Selling and Marketing. Selling and marketing expenses increased by $1.0 million, or 18.4%, from $5.2 million for the fiscal year ended June 30, 1999 to $6.1 million for the fiscal year ended June 30, 2000. This increase is attributable to an increase in NetSat Express' sales and marketing efforts to penetrate into new regions offset by a decrease by Globecomm Systems' sales and marketing efforts.

Research and Development. Research and development expenses decreased by $0.5 million, or 40.8%, from $1.3 million for the fiscal year ended June 30, 1999 to $0.8 million for the fiscal year ended June 30, 2000. This decrease is primarily due to the completion of the Explorer-Ku Multimedia Portable Satellite Earth Station.

General and Administrative. General and administrative expenses increased by $4.3 million, or 71.5%, from $6.0 million for the fiscal year ended June 30, 1999 to $10.4 million for the fiscal year ended June 30, 2000. General and administrative expenses as a percentage of revenues increased from 12.3% for the fiscal year ended June 30, 1999 to 13.2% for the fiscal year ended June 30, 2000. The increase in general and administrative expenses for the fiscal year ended June 30, 2000 primarily resulted from an increase in NetSat Express' personnel, including expenses related to developing its management team and depreciation expense related to capital leases entered into during fiscal 2000 for satellite space segment transponders.

Terminated Acquisition. Terminated acquisition costs of $1.0 million for the fiscal year ended June 30, 1999 relate to legal, accounting and other expenses associated with the termination of a proposed acquisition of a mobile satellite communications business during the first quarter ended September 30, 1998, due to the determination that the acquisition was not in the best interest of our stockholders.

Asset Impairment Charge. The asset impairment charge of $0.7 million for the fiscal year ended June 30, 1999, related to two investments that were written-down in the fiscal fourth quarter ended June 30, 1999. Our management evaluated these investments and believed it would be appropriate to write-down these investments to zero.

Interest Income. Interest income increased by $0.7 million, or 76.2%, from $1.0 million for the fiscal year ended June 30, 1999 to $1.7 million for the fiscal year ended June 30, 2000. This increase was primarily due to the increase of cash and cash equivalents during the fourth quarter ended June 30, 2000 as a result of the investment of the net proceeds from our secondary common stock offering plus the investment of the net proceeds of NetSat Express' private offerings in fiscal 2000.

Interest Expense. Interest expense was minimal for the fiscal year ended June 30, 1999 and $2.5 million for the fiscal year ended June 30, 2000. This increase relates to NetSat Express' capital lease obligations entered into during fiscal year 2000 for satellite space segment transponders.

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

NetSat Express. Our consolidated subsidiary, NetSat Express, experienced an increase in revenues of $6.3 million, or 237.7%, from $2.7 million for the fiscal year ended June 30, 1999 to $9.0 million for the fiscal year ended June 30, 2000. The increase resulted from additional service and hardware revenues derived from new and existing Internet access service customers. The loss from operations associated with NetSat Express increased by $7.5 million, or 357.1%, from $2.1 million for the fiscal year ended June 30, 1999 to $9.6 million for the fiscal year ended June 30, 2000. The increase was primarily associated with an increase general and administrative expenses due to an increase in personnel, including management, and depreciation expense related to capital leases entered into during fiscal 2000 for satellite space segment transponders, an increase in network operation expenses due to continuing expansion of NetSat Express'

network operations center and related expenses to support the increasing service base and selling and marketing efforts to penetrate into new regions.

QUARTERLY RESULTS

The following tables set forth unaudited financial information for each of the eight fiscal quarters in the period ended June 30, 2001. We believe that this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in the Annual Report on Form 10-K, and we believe all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results of operations when read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	THREE MONTHS ENDED					
	SEPT. 30, 1999	DEC. 31, 1999	MAR. 31, 2000	JUNE 30, 2000	SEPT. 30, 2000	DE
					(IN THOUSANDS)	
CONSOLIDATED STATEMENT OF OPERATIONS DATA:						
Revenues......................	$ 19,425	$ 17,373	$ 18,570	$ 23,203	$ 26,444	$
Costs of revenues.............	16,917	14,968	16,104	19,256	21,330	
Gross profit..................	2,508	2,405	2,466	3,947	5,114	
Operating expenses:						
Network operations.........	276	442	550	658	756	
Selling and marketing......	1,045	1,381	1,587	2,126	2,096	
Research and development...	130	225	193	236	210	
General and administrative.	1,984	2,130	2,808	3,439	4,494	
Asset impairment charge....	-	-	-	-	-	
Restructuring charge.......	-	-	-	-	-	
Total operating expenses......	3,435	4,178	5,138	6,459	7,556	

Loss from operations..........	(927)	(1,773)	(2,672)	(2,512)	(2,442)
Other income (expense):					
Interest income............	170	277	282	998	978
Interest expense...........	(58)	(258)	(769)	(1,437)	(1,951)
Gain on sale of consolidated subsidiary's common stock..............	-	2,353	-	-	-
Gain on sale of investment..	-	-	-	-	-
(Loss) income before income taxes and minority interests...................	(815)	599	(3,159)	(2,951)	(3,415)
Provision for income taxes....	-	-	-	-	(415)
(Loss) income before minority interests..........	(815)	599	(3,159)	(2,951)	(3,830)
Minority interests in operations of consolidated subsidiary..................	76	538	1,075	1,056	37
Net (loss) income............	(739)	$ 1,137	$ (2,084)	$ (1,895)	$ (3,793)
PERCENTAGE OF TOTAL REVENUES:					
Revenues.......................	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Costs of revenues..............	87.1	86.2	86.7	83.0	80.7
Gross profit...................	12.9	13.8	13.3	17.0	19.3
Operating expenses:					
Network operations..........	1.4	2.5	3.0	2.8	2.8
Selling and marketing.......	5.4	7.9	8.6	9.2	7.9
Research and development....	0.7	1.3	1.0	1.0	0.8
General and administrative..	10.2	12.3	15.1	14.8	17.0
Asset impairment charge.....	-	-	-	-	-
Restructuring charge........	-	-	-	-	-
Total operating expenses......	17.7	24.0	27.7	27.8	28.5
Loss from operations...........	(4.8)	(10.2)	(14.4)	(10.8)	(9.2)
Other income (expense):					
Interest income..............	0.9	1.6	1.5	4.3	3.7
Interest expense.............	(0.3)	(1.5)	(4.1)	(6.2)	(7.4)
Gain on sale of consolidated subsidiary's common stock...............	-	13.5	-	-	-
Gain on sale of investment...	-	-	-	-	-
(Loss) income before income taxes and minority interests.	(4.2)	3.4	(17.0)	(12.7)	(12.9)
Provision for income taxes.....	-	-	-	-	(1.5)
(Loss) income before minority interests...........	(4.2)	3.4	(17.0)	(12.7)	(14.4)
Minority interests in operations of consolidated subsidiary...................	0.4	3.1	5.8	4.5	0.1
Net (loss) income............	(3.8) %	6.5 %	(11.2)%	(8.2)%	(14.3)%

We may continue to experience significant quarter-to-quarter fluctuations in our consolidated results of operations, which may result in volatility in the price of our common stock. See "Risk Factors" beginning on page 28.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, we had working capital of $60.6 million, including cash and cash equivalents of $45.0 million, restricted cash of $0.6 million, net accounts receivable of $25.3 million, inventories of $15.3 million, prepaid expenses and other current assets of $0.8 million, offset by $15.3 million in accounts payable, $5.8 million in deferred revenue and $5.3 million in accrued expenses and other current liabilities.

Net cash used in operating activities during the fiscal year ended June 30, 2001 was $12.1 million, which primarily relates to the net loss of $18.7 million, an increase in accounts receivable of $3.3 million due to the timing of collections on certain contract billings, an increase in inventories of $2.0 million, a decrease in accounts payable of $1.2 million relating to the timing of vendor payments, offset by depreciation and amortization expense of $7.2 million primarily related to the depreciation on capital leases for satellite space segment transponders, a one-time asset impairment charge of $2.9 million and a decrease in net deferred tax assets of $1.9 million.

Net cash used in investing activities during the fiscal year ended June 30, 2001 was $7.2 million. During the fiscal year ended June 30, 2001, we used cash of $5.4 million to purchase satellite earth station equipment and fixed assets primarily related to the build out of the NetSat Express Network Operations Center. Additionally, $1.8 million was used to purchase the minority interest in NetSat Express.

Net cash used in financing activities during the fiscal year ended June 30, 2001 was $1.0 million. During the fiscal year ended June 30, 2001, we made principal payments under capital leases of $1.7 million, offset by $0.7 million in cash proceeds received from the exercise of stock options and the sale of common stock in connection with the employee stock purchase plan.

In December 2000, we entered into a new $5.0 million credit facility consisting of (1) a $2.0 million secured domestic line of credit and (2) a $3.0 million secured export-import guaranteed line of credit. This new credit facility has substantially the same terms as the previous facility, which expired in December 2000. Each line of credit bears interest at the prime rate (6.75% at June 30, 2001) plus 0.50% per annum, and is collateralized by a first security interest on all our assets. The credit facility contains certain financial covenants, which the Company is in compliance with at June 30, 2001. As of June 30, 2001, no amounts were outstanding under this credit facility.

We also lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through 2014. Future minimum lease payments due on these leases through the fiscal year ending June 30, 2002 are approximately $21.2 million.

We expect that cash and working capital requirements for our operating activities will continue to increase as we expand our operations. Management anticipates that we will experience negative cash flows due to continued operating losses by NetSat Express.

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the ground segment systems, networks, and communications services business, the nature and timing of customer orders, the extent to which we are able to locate additional strategic suppliers in whose technology we wish to invest, the extent to which we must conduct research and development efforts internally and potential acquisitions of complementary businesses, products or technologies. Based on current plans, management believes that existing capital resources will be sufficient to meet working capital requirements through June 30, 2002. However, we cannot assure you that there will be no change that would consume available resources significantly before that time. For example, recent terrorist attacks on

the United States, as well as future events occurring in response to or in connection with them, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our products and services in the United Sates and internationally may impact our results of operations. Additional funds may not be available when needed and even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common stock, which could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. If adequate funds are unavailable, we may be required to delay, scale back or eliminate some of our operating activities, including without limitation, the timing and extent of our marketing programs, the extent and timing of hiring additional personnel and our research and development activities and operating activities of NetSat Express. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

We will early adopt the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. Application of the nonamortization provisions of the Statement is expected to result in a decrease in net loss of approximately $860,000 ($.07 per diluted share) per year. During fiscal 2002, we will perform the first of the required impairment tests of goodwill. Management has not yet determined what the effect of these tests will have on our earnings and financial position, however management does not believe the first of the required impairment tests will result in a write-down of the recorded goodwill balances.

RISK FACTORS

WE HAVE A HISTORY OF OPERATING LOSSES AND NEGATIVE CASH FLOW AND EXPECT OUR LOSSES TO CONTINUE.

We have incurred significant net losses since we began operating in August 1994. We incurred net losses of $18.7 million during the fiscal year ended June 30, 2001, $3.6 million during the fiscal year ended June 30, 2000 and $8.2 million during the fiscal year ended June 30, 1999. Our net losses include net losses of $16.4 million during the fiscal year ended June 30, 2001, $7.1 million during the fiscal year ended June 30, 2000 and $2.1 million during the fiscal year ended June 30, 1999 for NetSat Express. As of June 30, 2001, our accumulated deficit was approximately $37.0 million. We anticipate that we will continue to incur net losses. Our ability to achieve and maintain profitability will depend upon our ability to generate significant revenues through new customer contracts and the expansion of our existing products and services, including our communications services. We cannot assure you that we will be able to obtain new customer contracts or generate significant additional revenues from those contracts or any new products or services that we introduce. Even if we become profitable, we may not sustain or increase our profits on a quarterly or annual basis in the future.

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

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

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

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

o political and economic instability in international markets, as well as a result of the terrorist attacks in the United States on September 11, 2001, could impede our ability to deliver our products and services to customers and harm our results of operations;

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

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

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

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

- potentially adverse taxes;
- complex foreign laws and treaties; and
- difficulties in collecting accounts receivable.

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

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

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

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

NetSat Express' future revenues and results of operations are dependent on its execution of its business strategy and the development of the market for its current and future services. In particular, if NetSat Express does not substantially utilize its transponder space, our results of operations, and our gross profit margins in particular, will be harmed. We cannot assure you that all of the transponder space will be substantially utilized.

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

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

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

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

- general political and economic conditions in the United States and abroad as a result of the terrorist attacks on September 11, 2001;
- the length of time needed to initiate and complete customer contracts;
- delays and/or a decrease in the booking of new contracts;
- the demand for and acceptance of our existing products and services;
- the cost of providing our products and services;
- the introduction of new and improved products and services by us or our competitors;
- market acceptance of new products and services;
- the mix of revenue between our standard products, custom-built products and our communications services;
- the timing of significant marketing programs;
- our ability to hire and retain additional personnel;
- the competition in our markets; and
- difficult global economic conditions and the currency devaluations in Russia and other international markets which have, and may continue to, adversely impact our quarterly results.

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

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

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

In the communications services and Internet access services markets, we compete with other satellite communication companies who provide similar services, like Loral CyberStar, Inc. and PanAmSat Corporation and Verestar, as well as other Internet services providers. In addition, we may compete with other communications service providers like Teleglobe, Inc. and MCI WorldCom Inc. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. In addition, we anticipate that continuing deregulation worldwide is expected to result in the formation of a significant number of new competitive service providers over the next two to three years. These competitors have the financial resources to withstand substantial price

competition and may be in a better position to endure difficult economic conditions in Russia and other international markets, and may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances that they could use to their advantage in competitive situations.

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

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

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

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

We have incurred negative cash flows from operations in each year since our inception. We believe that our available cash resources will be sufficient to meet our working capital and capital expenditure requirements through June 30, 2002. However, our future liquidity and capital requirements are difficult to predict, as they depend on numerous factors, including the success of our existing product and service offerings as well as competing technological and market developments. We may need to raise additional funds in order to meet additional working capital requirements and to support additional capital expenditures. Should this need arise, additional funds may not be available when needed and, even if additional funds are available, we may not find the terms favorable or commercially reasonable. If adequate funds are unavailable, we may be required to delay, reduce or eliminate some of our operating activities, including marketing programs, hiring of additional personnel and research and development programs. If we raise additional funds by issuing equity securities, our existing stockholders will own a smaller percentage of our capital stock and new investors may pay less on average for their securities than, and could have rights superior to, existing stockholders.

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

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

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

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

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

Since our inception, we have continued to increase the scope of our operations. This growth has placed, and our anticipated growth will continue to place, a significant strain on our personnel, management, financial and other resources. Any failure to manage our growth effectively could seriously harm our ability to respond to customers, monitor the quality of our products and services and maintain the overall efficiency of our operations. In order to continue to pursue the opportunities presented by our satellite-based communications services, we plan to continue to hire key officers and other employees and to increase our operating expenses by broadening our customer support capabilities, expanding our sales and marketing operations and improving our operating and financial systems. If we fail to manage any future growth in an efficient manner, and at a pace consistent with our business, our results of operations, financial condition and business will be harmed.

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

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

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

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

IF OUR PRODUCTS AND SERVICES ARE NOT ACCEPTED IN DEVELOPING COUNTRIES WITH EMERGING MARKETS, OUR REVENUES WILL BE IMPAIRED.

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

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

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

o the acceptance of our products and services by customers.

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

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

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

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

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

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

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

We have filed applications for trademark registration of Globecomm Systems Inc., Globecomm, and GSI in the United States and various other countries, and have been granted registrations for some of these terms in Europe and Russia. We have received trademark registrations for NetSat Express in the United States, the European Community, Russia, and Brazil. We have various other trademarks registered or pending for registration in the United States and in other countries and may intend to seek registration of other trademarks and service marks in the future. We cannot assure you that registrations will be granted from any of our pending or future applications, or that any registrations that are granted will prevent others from using similar trademarks in connection with related goods and services.

DEFENDING AGAINST INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS COULD BE TIME CONSUMING AND EXPENSIVE, AND IF WE ARE NOT SUCCESSFUL, COULD CAUSE SUBSTANTIAL EXPENSES AND DISRUPT OUR BUSINESS.

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

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

As of September 25, 2001, our officers and directors, and their affiliates beneficially own approximately 1.8 million shares, constituting approximately 13.4% of our outstanding common stock. These stockholders, acting together, may be able to exert significant influence over the election of directors and other corporate actions requiring stockholder approval.

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

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

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

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

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

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

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

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

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

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

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

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

OUR STOCK PRICE IS HIGHLY VOLATILE.

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

o quarterly variations in operating results;

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

o acceptance of satellite-based communication services and Internet access services in developing countries with emerging markets;

o changes in financial estimates or recommendations by security analysts; or

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

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

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

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

RISKS RELATED TO GOVERNMENT APPROVALS

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

OPERATIONS AND USE OF SATELLITES

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communications Commission, or FCC licensed earth stations in Hauppauge, New York, subject to the Communications Act of 1934, as amended (the Act), and the rules and regulations of FCC. Pursuant to the Act and rules, we have obtained and are required to maintain radio transmission licenses from the FCC for both domestic and foreign operations of our earth stations. These licenses should be renewed by the FCC in the normal course as long as we remain in compliance with FCC rules and regulations. However, we cannot guarantee that additional licenses will be granted by the FCC when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our earth stations. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our earth stations.

FOREIGN OWNERSHIP

We may, in the future, be required to seek FCC approval for foreign ownership if we operate as a common carrier and ownership of our stock exceeds the specified criteria. Failure to comply with these policies may result in an order to divest the offending foreign ownership, fines, denial of license renewal, and/or license revocation proceedings against the licensee by the FCC.

FOREIGN REGULATIONS

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

REGULATION OF THE INTERNET

Due to the increasing popularity and use of the Internet it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues including user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications. It is anticipated that a substantial portion of our Internet operations will be carried out in countries, which may impose greater regulation of the content of information coming into the country than that which is generally applicable in the United States, for example, privacy regulations in 35 countries in Europe and content restrictions in countries including the Republic of China. To the extent that we provide content as a part of our Internet services, it will be subject to laws regulating content. Moreover, the adoption of laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our Internet services or increase our cost of doing business or in some other manner have a material adverse effect on our business, operating results and financial condition. In addition, the applicability to the Internet of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel and personal privacy is uncertain. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Changes to these laws intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace which could reduce demand for our products and services, could increase our cost of doing business as a result of costs of litigation or increased product development costs, or could in some other manner have a material adverse effect on our business, financial condition and results of operations.

TELECOMMUNICATIONS TAXATION, SUPPORT REQUIREMENTS, AND ACCESS CHARGES

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

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

EXPORT OF TELECOMMUNICATIONS EQUIPMENT

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our objective to managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates for certain purchases from foreign vendors, if applicable. Accordingly, we utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. During the years ended June 30, 1999, 2000 and 2001, we had no such foreign currency forward contracts.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(A) (1) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(2) INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

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

(3) LISTING OF EXHIBITS

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

10.3	Form of Registration Rights Agreement dated December 31, 1996, as amended (incorporated by reference to exhibit 10.3 of the Registration Statement).
10.4	Letter Agreement for purchase and sale of 199,500 shares of Common Stock dated November 9, 1995 between the Registrant and Thomson-CSF (incorporated by reference to exhibit 10.4 of the Registration Statement).
10.5	Investment Agreement dated February 12, 1996 by and between Shiron Satellite Communications (1996) Ltd. and the Registrant (incorporated by reference to exhibit 10.5 of the Registration Statement).
10.6*	Stock Purchase Agreement dated as of August 30, 1996 by and between C-Grams Unlimited Inc. and the Registrant (incorporated by reference to exhibit 10.6 of the Registration Statement).
10.7	Memorandum of Understanding dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to exhibit 10.7 of the Registration Statement).
10.8	Stock Purchase Agreement dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by reference to exhibit 10.8 of the Registration Statement).
10.9	Employment Agreement dated as of January 27, 1997 between the Registrant and David E. Hershberg (incorporated by reference to exhibit 10.9 of the Registration Statement).
10.10	Employment Agreement dated as of January 27, 1997 between the Registrant and Kenneth A. Miller (incorporated by reference to exhibit 10.10 of the Registration Statement).

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

10.12 1997 Stock Incentive Plan (incorporated by reference to exhibit 10.14 of the Registration Statement).

10.13 Investment Agreement dated August 21, 1998 by and between McKibben Communications LLC and the Registrant (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).

10.14 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the S-8 of the S-8 Registration Statement).

10.15 Rights Agreement, dated as of December 3, 1998, between the Company and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Company's Current Report on Form 8-K dated December 3, 1998).

10.16 Common Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and Globix Corporation (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

10.17 Series A Preferred Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and George Soros (incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).

10.18 Common Stock Purchase Agreement dated October 28, 1999 between NetSat Express, Inc., Globecomm Systems Inc. and Reuters Holdings Switzerland SA (incorporated by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 1999).

10.19 Negotiable Promissory Note, dated April 1, 2001, between the Registrant and Donald Woodring (filed herewith).

21 Subsidiaries of the Registrant (filed herewith).

23 Consent of Independent Auditors (filed herewith).

* Confidential treatment granted for portions of this agreement.

(B) REPORTS ON FORM 8-K

None

(C) EXHIBITS

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

(C) FINANCIAL STATEMENT SCHEDULES

The response to this portion of Item 14 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.

By: /s/ DAVID E. HERSHBERG   Date

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
/s/ DAVID E. HERSHBERG David E. Hershberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ ANDREW C. MELFI Andrew C. Melfi	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ KENNETH A. MILLER Kenneth A. Miller	President and Director
/s/ DONALD G. WOODRING Donald G. Woodring	Vice President and Director
/s/ STEPHEN C. YABLONSKI Stephen C. Yablonski	Vice President, General Manager and Director
/s/ BENJAMIN DUHOV	Director

Benjamin Duhov

/s/	C.J. WAYLAN	Director
	C.J. Waylan	
/s/	A. ROBERT TOWBIN	Director
	A. Robert Towbin	
/s/	RICHARD E. CARUSO	Director
	Richard E. Caruso	

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Globecomm Systems Inc. as of June 30, 2000 and 2001 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, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Globecomm Systems Inc. at June 30, 2000 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/S/ ERNST & YOUNG LLP

Melville, New York
August 10, 2001

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

	JUNE 30, 2000	JUNE 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,289	$ 45,038
Restricted cash	421	588
Accounts receivable, net	22,722	25,337
Inventories	13,335	15,285
Prepaid expenses and other current assets	1,571	803
Deferred income taxes	1,942	-
Total current assets	105,280	87,051
Fixed assets, net	112,784	30,456
Investments	2,961	-
Other assets, net of accumulated amortization of $215 in 2000 and $458 in 2001	1,729	7,492
Total assets	$ 222,754	$ 124,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,494	$ 15,317
Deferred revenue	6,287	5,825
Accrued payroll and related fringe benefits	680	931
Accrued interest	1,566	-
Other accrued expenses	3,812	3,609
Deferred liability	194	300
Capital lease obligations	1,716	430
Total current liabilities	30,749	26,412
Deferred liability, less current portion	1,853	3,341
Capital lease obligations, less current portion	94,502	10,105
Minority interests in consolidated subsidiary	126	-
Series A Participating Preferred stock of consolidated subsidiary, at redemption value	5,000	-
Commitments and contingencies		
Stockholders' equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none in 2000 and 2001	-	-
Common stock, $.001 par value, 22,000,000 shares authorized, shares issued: 12,024,256 in 2000 and 12,865,591 in 2001	12	13

Additional paid-in capital	110,105	123,276
Accumulated deficit	(18,298)	(36,997)
Accumulated other comprehensive income (loss)	17	(57)
Deferred compensation	(218)	-
Treasury stock, at cost, 147,745 shares in 2000 and 2001	(1,094)	(1,094)
Total stockholders' equity	90,524	85,141
Total liabilities and stockholders' equity	$ 222,754	$ 124,999

See accompanying notes.

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

	YEARS ENDED	
	1999	2000
Revenues	$ 49,058	$ 78,571
Costs of revenues	43,516	67,245
Gross profit	5,542	11,326
Operating expenses:		
Network operations	514	1,926
Selling and marketing	5,183	6,139
Research and development	1,325	784
General and administrative	6,040	10,361
Terminated acquisition costs	972	-
Asset impairment charge	679	-
Restructuring charge	-	-
Total operating expenses	14,713	19,210
Loss from operations	(9,171)	(7,884)
Other income (expense):		
Interest income	980	1,727
Interest expense	(1)	(2,522)
Gain on sale of consolidated subsidiary's common stock	-	2,353
Gain on sale of investment	-	-
Loss before income taxes and minority interests in operations of consolidated subsidiary	(8,192)	(6,326)
Provision for income taxes	-	-
Loss before minority interests in operations of consolidated subsidiary	(8,192)	(6,326)

Minority interests in operations of consolidated subsidiary	-	2,745
Net loss	$ (8,192)	$ (3,581)
Basic and diluted net loss per common share	$ (0.90)	$ (0.36)
Weighted-average shares used in the calculation of basic and diluted net loss per common share	9,109	10,016

See accompanying notes.

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 1999, 2000 AND 2001
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL
	SHARES	AMOUNT	
Balance at June 30, 1998	9,166	$ 9	$ 50,530
Issuance of common stock in exchange for minority shares in subsidiary	43	-	250
Issuance of common stock in connection with acquisition	50	-	406
Proceeds from exercise of stock options	39	-	148
Exercise of stock options in exchange for shares of common stock	49	-	258
Issuance of common stock in connection with employee stock purchase plan	18	-	94
Purchases of treasury stock	-	-	-
Options granted to employees and directors	-	-	75
Grant of consolidated subsidiary's employee stock options	-	-	300
Amortization of deferred compensation	-	-	-
Net loss	-	-	-
Balance at June 30, 1999	9,365	9	52,061
Proceeds from secondary offering, net of issuance cost of $3,903	2,000	2	50,095
Proceeds from issuance of consolidated subsidiary's common stock and stock options, net of issuing costs of $1,002	-	-	4,012
Minority interests resulting from issuance of consolidated subsidiary's common stock and stock options	-	-	(2,197)
Proceeds from exercise of stock options	577	1	3,569

Tax benefit from exercise of non-qualified stock options	-	-	1,942
Proceeds from exercise of warrants	2	-	12
Exercise of stock options in exchange for shares of common stock	54	-	291
Issuance of common stock in connection with employee stock purchase plan	26	-	252
Options granted to employees and directors	-	-	24
Options of consolidated subsidiary's common stock granted to consultants.	-	-	44
Amortization of deferred compensation	-	-	-
Comprehensive loss:			
Net loss	-	-	-
Gain from foreign currency translation	-	-	-
Total comprehensive loss	-	-	-
Balance at June 30, 2000	12,024	12	110,105
Proceeds from exercise of stock options	69	-	358
Issuance of common stock in connection with employee stock purchase plan	55	-	328
Issuance of common stock in connection with acquisition of minority interests in consolidated subsidiary	718	1	6,582
Issuance of warrants in connection with acquisition of minority interests in consolidated subsidiary .	-	-	5,043
Issuance of options in connection with acquisition of minority interests in consolidated subsidiary	-	-	309
Acquisition of minority interests in consolidated subsidiary	-	-	907
Forfeiture of consolidated subsidiary's employee stock options	-	-	(225)
Minority interests resulting from issuance of consolidated subsidiary's common stock	-	-	(131)
Comprehensive loss:			
Net loss	-	-	-
Loss from foreign currency translation	-	-	-
Loss from available-for-sale securities	-	-	-
Total comprehensive loss	-	-	-
Balance at June 30, 2001	12,866	$ 13	$ 123,276

	DEFERRED COMPENSATION	TREASURY STOCK SHARES	AMOUNT
Balance at June 30, 1998	$ -	-	$ -
Issuance of common stock in exchange for minority shares in subsidiary	-	-	-
Issuance of common stock in connection with acquisition	-	-	-
Proceeds from exercise of stock options	-	-	-
Exercise of stock options in exchange for shares of common stock	-	26	(258)
Issuance of common stock in connection with employee stock purchase plan	-	-	-
Purchases of treasury stock	-	114	(545)
Options granted to employees and directors	-	-	-
Grant of consolidated subsidiary's employee stock options	(300)	-	-

Amortization of deferred compensation	7	-	-
Net loss	-	-	-
Balance at June 30, 1999	(293)	140	(803)
Proceeds from secondary offering, net of issuance cost of $3,903	-	-	-
Proceeds from issuance of consolidated subsidiary's common stock and stock options, net of issuing costs of $1,002	-	-	-
Minority interests resulting from issuance of consolidated subsidiary's common stock and stock options	-	-	-
Proceeds from exercise of stock options	-	-	-
Tax benefit from exercise of non-qualified stock options	-	-	-
Proceeds from exercise of warrants	-	-	-
Exercise of stock options in exchange for shares of common stock	-	8	(291)
Issuance of common stock in connection with employee stock purchase plan	-	-	-
Options granted to employees and directors	-	-	-
Options of consolidated subsidiary's common stock granted to consultants.	-	-	-
Amortization of deferred compensation	75	-	-
Comprehensive loss:			
Net loss	-	-	-
Gain from foreign currency translation	-	-	-
Total comprehensive loss	-	-	-
Balance at June 30, 2000	(218)	148	(1,094)
Proceeds from exercise of stock options	-	-	-
Issuance of common stock in connection with employee stock purchase plan	-	-	-
Issuance of common stock in connection with acquisition of minority interests in consolidated subsidiary	-	-	-
Issuance of warrants in connection with acquisition of minority interests in consolidated subsidiary .	-	-	-
Issuance of options in connection with acquisition of minority interests in consolidated subsidiary	-	-	-
Acquisition of minority interests in consolidated subsidiary	-	-	-
Forfeiture of consolidated subsidiary's employee stock options	218	-	-
Minority interests resulting from issuance of consolidated subsidiary's common stock	-	-	-
Comprehensive loss:			
Net loss	-	-	-
Loss from foreign currency translation	-	-	-
Loss from available-for-sale securities	-	-	-
Total comprehensive loss	-	-	-
Balance at June 30, 2001	$ -	148	$(1,094)

See accompanying notes.

GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS E	
	1999	
OPERATING ACTIVITIES:		
Net loss	$ (8,192)	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,267	
Stock compensation expense	82	
Provision for doubtful accounts	100	
Loss on disposal of fixed assets and other	129	
Asset impairment charge	679	
Minority interests in operations of consolidated subsidiary	-	
Interest on capital lease obligations	-	
Gain on sale of consolidated subsidiary's common stock	-	
Gain on sale of investment	-	
Deferred income taxes	-	
Changes in operating assets and liabilities:		
Accounts receivable	(230)	
Inventories	(6,408)	
Prepaid expenses and other current assets	(572)	
Other assets	(74)	
Accounts payable	5,707	
Deferred revenue	1,841	
Accrued payroll and related fringe benefits	227	
Accrued interest and other accrued expenses	1,036	
Deferred liability	-	
Net cash used in operating activities	(4,408)	
INVESTING ACTIVITIES:		
Purchases of fixed assets	(3,818)	
Purchases of investments	(1,547)	
Proceeds from sale of investments	-	
Purchases of consolidated subsidiary's common stock	-	
Purchase of consolidated subsidiary's preferred stock	-	
Proceeds from sale of consolidated subsidiary's common stock	-	
Restricted cash	930	
Net cash used in investing activities	(4,435)	
FINANCING ACTIVITIES:		
Proceeds from sale of common stock, net	-	
Proceeds from sale of consolidated subsidiary's common stock, net	-	
Proceeds from sale of consolidated subsidiary's preferred stock	-	
Proceeds from exercise of stock options	148	
Proceeds from exercise of consolidated subsidiary's stock options	-	
Proceeds from exercise of warrants	-	
Proceeds from sale of common stock in connection with employee stock purchase plan	94	
Purchases of treasury stock	(545)	
Payment of deferred offering costs	(234)	
Payments under capital leases	(18)	
Net cash (used in) provided by financing activities	(555)	

Effect of foreign currency translation on cash	-	
Net (decrease) increase in cash and cash equivalents	(9,398)	
Cash and cash equivalents at beginning of year	21,342	
Cash and cash equivalents at end of year	$ 11,944	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 1	$

See accompanying notes.

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Globecomm Systems Inc. (the "Company") was incorporated in the State of Delaware on August 17, 1994. The Company is an end-to-end satellite communications solutions provider. The Company's core business provides end-to-end value-added satellite-based 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 end-to-end satellite based Internet solutions including network connectivity, broadband connectivity to end users, Internet connectivity, Intranet extensions, media distribution and other network services on a global basis.

The Company has incurred operating losses since its inception and has an accumulated deficit at June 30, 2001 of approximately $36,997,000. Such losses have resulted principally from general and administrative and selling and marketing expenses associated with the Company's operations. Management believes that its existing capital resources will be sufficient to meet its working capital needs through June 30, 2002.

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. 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. 101, Revenue Recognition in Financial Statements, for its short-term (less than twelve months in term) production-type contracts that are sold separately as stand-alone ground segment systems. Such contracts typically require less engineering, drafting and design efforts than other longer-term production-type projects and usually require customer acceptance upon completion of installation of the equipment at the customers' site. Accordingly, the Company typically recognizes 80-90% of the contract value upon shipment with the balance recognized upon receipt of the customers' final acceptance. Installation is not deemed to be essential to the functionality of the equipment since installation is mechanical in nature and does not require significant change to the features or capability of the equipment, or require complex software integration and interfacing. In addition, the customer or other vendors can install the equipment; and generally the cost of installation is approximately 10-20% of the sales value of the related equipment. Payments received in advance by customers are deferred until shipment and are presented as deferred revenue in the accompanying consolidated balance sheets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company uses the percentage-of-completion method of accounting to recognize revenue for its long-term (in excess of twelve months in term), more complex production-type contracts that are generally integrated into complete ground segment networks, upon the achievement of certain contractual milestones, in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Contract costs generally include purchased material, direct labor, overhead and other indirect costs. Anticipated contracted losses are recognized as they become known.

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

Cost of Revenues

In addition to contract costs, cost of revenues relating to Internet access service fees consist primarily of satellite space segment charges and Internet connectivity fees. Cost of revenues associated with hardware and equipment sales consist primarily of the purchase of the related products.

Network Operations

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

Research and Development

Research and development expenditures are expensed as incurred.

Inventories

Inventories, which consist primarily of work-in-progress from costs incurred in connection with specific customer contracts, are stated at the lower of cost (using the first-in, first-out method of accounting) or market value.

Cash Equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

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

Fair Value of Financial Instruments

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

Stock Based Compensation

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

Goodwill

Goodwill represents excess of the purchase price over the fair value of the net assets acquired. Amortization expense relating to goodwill is amortized on a straight-line basis over periods ranging from five-to-ten years. Such amounts are included in other assets in the accompanying consolidated balance sheets. Goodwill is approximately $899,000 and $7,899,000, net of accumulated amortization of $215,000 and $458,000, respectively, at June 30, 2000 and 2001.

Long-Lived Assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will early adopt the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. Application of the nonamortization provisions of the Statement is expected to result in a decrease in net loss of approximately $860,000 ($.07 per diluted share) per year. During fiscal 2002, the Company will perform the first of the required impairment tests of goodwill. The Company has not yet determined what the effect of these tests will be on the earnings and financial position of the Company, however the Company does not believe the first of the required impairment tests will result in a write-down of the related goodwill balances.

Reclassifications

Certain balances in the prior years have been reclassified to conform to the current year presentation.

3. INVENTORIES

Inventories consist of the following:

	JUNE 30, 2000	JUNE 30, 2001
	(IN THOUSANDS)	
Raw materials and component parts.......	$ 450	$ 608
Work-in-progress.......................	12,885	14,677
	$ 13,335	$ 15,285

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)

4. FIXED ASSETS

Fixed assets consist of the following:

	JUNE 30, 2000	JUNE 30, 2001
	(IN THOUSANDS)	
Land....................................	$ 1,750	$ 1,750
Building and improvements................	5,510	5,914
Computer equipment.......................	1,900	2,740
Machinery and equipment..................	1,761	2,414
Network Operations Center................	3,320	5,137
Satellite earth station equipment.........	6,362	8,554
Furniture and fixtures...................	760	1,189
Leasehold improvements...................	29	29
Satellite transponders...................	96,361	11,256
Construction-in-progress.................	507	-
	118,260	38,983
Less accumulated depreciation and amortization....................	5,476	8,527
	$ 112,784	$ 30,456

5. INVESTMENTS

The Company has various investments in strategic alliance companies that are accounted for under the cost method of accounting, as the Company does not have the ability to exercise significant influence over such investments, and there are no readily determinable market values for such investments. The Company periodically evaluates the carrying value of these investments to determine that they are recorded at the lower of cost or estimated net realizable value. Due to the significant decline in the public equity markets and the financial uncertainty of such investments, during fiscal 2001 the Company's management evaluated these investments and determined it would be appropriate to write-down these investments to net realizable value. Similarly in fiscal 1999, the Company's management evaluated its investments and determined it would be appropriate to write-down certain investments to net realizable value. As a result, the Company recorded an asset impairment charge of approximately $679,000 and $2,857,000 during the fourth quarters of fiscal 1999 and 2001, respectively. Such amounts have been included in operating expenses in the accompanying consolidated statements of operations.

During December 2000, the Company sold its interest in one of its investments, which is accounted for as a cost method investment, and recorded a gain on sale of investments of approximately $304,000. Such gain was included in the consolidated results of operations during the second quarter of fiscal year ended June 30, 2001.

6. TERMINATED ACQUISITION COSTS

During the year ended June 30, 1999, the Company incurred certain costs in connection with an attempt to acquire another company. During the first quarter of fiscal 1999, the Company terminated this proposed acquisition and, as a result, incurred costs of approximately $972,000 representing legal,

6. TERMINATED ACQUISITION COSTS (CONTINUED)

accounting and other acquisition related costs, which have been charged to operations for the year ended June 30, 1999.

7. COMMON STOCK

Issuance of Common Stock in Connection with Acquisition

On May 25, 1999, the Company acquired the business of Global-Net, Inc. ("Global-Net"), a wireless local loop telephone network solutions business, located in New York, in exchange for 50,000 shares of the Company's common stock with a fair market value of $8.13 per share on the date of acquisition. Had this acquisition been consummated as of July 1, 1998, the unaudited pro-forma consolidated revenues and results of operations would not have been materially different for the year ended June 30, 1999. The purchase price of approximately $406,000 has been allocated to goodwill and is being amortized over five years.

Sales of Common Stock

During March 1999, a minority shareholder in NetSat agreed to exchange its 1,680,000 shares of convertible preferred stock (representing approximately 14%) of NetSat for 42,533 shares of the Company. The shares of the Company were valued at $5.88 per share at the date of the agreement. Accordingly, the Company recorded goodwill of approximately $250,000 in connection with this transaction, which is being amortized over five-years. During May 1999, the Company exercised its right to convert its 1,680,000 shares of NetSat convertible preferred stock into 1,680,000 shares of common stock of NetSat.

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

Stock Issued to Consultants

During November 1996, the Company issued a ten-year warrant to five consultants for services to purchase an aggregate of 64,000 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, 2001, warrants to purchase 55,825 shares of the Company's common stock noted above are outstanding and exercisable.

Treasury Stock

On September 1, 1998, the Company's Board of Directors authorized the repurchase of up to $2.0 million of the Company's outstanding common stock. The repurchase program allows for purchases to be made intermittently, through open market and privately negotiated transactions. Timing, price, quantity and the manner of purchase are at the discretion of the Company's management subject to compliance with the applicable securities laws. During the year ended June 30, 1999, the Company repurchased 114,200 shares of the Company's common stock under the repurchase program for an aggregate purchase price of approximately $545,000.

7. COMMON STOCK (CONTINUED)

During June 1999, an employee of the Company surrendered 25,438 shares of the Company's common stock, with a fair market value at time of surrender of $10.13 per share, in exchange for the exercise of 49,875 stock options with exercise prices ranging from $4.68 to $8.07. Accordingly, the Company recorded 25,438 shares in treasury stock, with a fair value of approximately $258,000, and issued 24,437 shares of the Company's common stock to the employee.

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

8. NETSAT'S EQUITY TRANSACTIONS AND RESTRUCTURING

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

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

During April 2001, in connection with management's plan to reduce costs and to improve NetSat's operating efficiencies, the Company recorded a restructuring charge of approximately $1,950,000 during the fourth quarter of fiscal year ended June 30, 2001. The restructuring is primarily associated with the discontinuance of certain NetSat product lines to enhance the Company's strategic redeployment of its consolidated operating activities, enabling the Company to offer its customers end-to-end satellite communications solutions while integrating operations and reducing costs. The restructuring will be completed during the first quarter of fiscal 2002. The major components of the restructuring charge include severance payments to terminated NetSat employees of approximately $850,000, fees incurred in connection with the termination of certain satellite lease transponders of approximately $540,000 (charged to cost of sales), the write-off of certain capitalized costs in the amount of approximately $620,000 associated with NetSat's terminated financing activities and the write-off of the

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

estimated book value of equipment in the amount of approximately $480,000 in connection with NetSat's discontinuance of certain product lines. At June 30, 2001, approximately $500,000 of the restructuring charge is accrued and included in other accrued expenses in the accompanying consolidated balance sheets.

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

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

b) During April and May 2001, the Company acquired 4,845,704 shares of

NetSat's common stock from minority stockholders for approximately $1,212,000 in cash, the issuance of 484,570 shares of the Company's common stock and the issuance of warrants to purchase 545,142 shares of the Company's common stock.

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

In connection with these transactions, the Company wholly-owns NetSat and accordingly, recorded goodwill of approximately $7,001,000, which represents the excess of the value of the Company's securities issued over the recorded minority interests at the time of the transactions. Such goodwill is being amortized over ten years.

9. 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, the Company's stockholders approved an amendment to the 1997 Plan to increase the number of shares authorized for issuance under the 1997 Plan by 800,000 shares.

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

9. STOCK OPTION AND STOCK PURCHASE PLANS (CONTINUED)

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.

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 1999, 2000 and 2001, the Company increased the number of options authorized for grant under the 1997 Plan pursuant to the automatic 1% provision by 181,335, 95,623 and 119,505, respectively. At June 30, 2001, the remaining options available for grant under the 1997 Plan was 173,713.

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 a propriety 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, 1999, 2000 and 2001, the Company issued 18,529, 25,733 and 54,905 shares of its common stock to participating employees in connection with the 1999 Plan. At June 30, 2001, the remaining shares available for issuance under the 1999 Plan was 300,833.

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

	YEARS ENDED JUNE 30,				
	1999		2000		
	SHARES UNDER OPTION	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES UNDER OPTION	WEIGHTED-AVERAGE EXERCISE PRICE	SHARE UNDE OPTIO
Balance, beginning of year......	1,795	$ 7.16	2,007	$ 7.32	1,57
Grants.........................	306	7.54	353	18.54	94
Exercised......................	(88)	4.59	(631)	6.11	(6
Canceled.......................	(6)	10.64	(151)	9.58	(7
Balance, end of year...........	2,007	7.32	1,578	10.10	2,38
Exercisable, end of year........	1,017	$ 6.29	863	$ 7.19	1,17
Weighted-average fair value of options granted during the year.........................		$ 3.94		$ 12.38	

9. STOCK OPTION AND STOCK PURCHASE PLANS (CONTINUED)

As a result of stock options granted during fiscal 1995, 1996 and 1997, the Company recorded stock compensation expense of approximately $75,000 and $24,000 during the years ended June 30, 1999 and 2000, respectively, based on the difference between the fair market value of the shares and the option exercise prices at the dates of grant. As of June 30, 2000, there was no additional stock compensation expense to be recorded relating to these grants.

The following table summarizes information about stock options outstanding at June 30, 2001 (In thousands, except per share price):

RANGE OF EXERCISE PRICE			OPTIONS OUTSTANDING NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXER NUMBER EXERCISABLE
$3.51	-	$5.06	427	4.8	$ 4.60	392
$5.50	-	$8.07	1,097	8.0	7.32	390
$8.26	-	$11.75	468	8.0	10.19	195
$12.75	-	$18.88	174	6.1	14.77	128
$21.00	-	$28.00	216	8.0	22.10	65
$3.51	-	$28.00	2,382	7.3	$ 9.28	1,170

The Company has reserved approximately 3,419,000 shares of its common stock for issuance upon exercise of all available and outstanding options and warrants at June 30, 2001.

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

Fair Value Disclosures

Pro forma information regarding net loss and net loss per share is required by SFAS No. 123, 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 of that Statement. The fair value of these 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, 1999, 2000 and 2001: risk-free interest rate of 6.5%, volatility factor of the expected market price of the Company's common stock of .91 (1999), .92 (2000), and .81 (2001), a weighted-average expected life of the option of six-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.

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)

9. STOCK OPTION AND STOCK PURCHASE PLANS (CONTINUED)

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,		
	1999	2000	2001
Pro forma net loss (in thousands)...........	$(9,851)	$(5,445)	$(19,749)
Basic and diluted pro-forma net loss per common share..	$ (1.08)	$ (0.54)	$ (1.64)

10. 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 and dilutive equivalent shares outstanding for the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of preferred stock (using an if-converted method) and incremental shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Incremental common equivalent shares are excluded from the calculation of diluted net loss per share if their effect is anti-dilutive. Diluted net loss per share for the years ended June 30, 1999, 2000 and 2001, excludes the effect of approximately 321,000, 951,000 and 415,000 stock options, respectively, and approximately 23,000, 32,000 and 10,000 warrants in 1999, 2000 and 2001, respectively, as their effect would have been anti-dilutive.

11. 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 20% of their pre-tax compensation. Participant contributions up to 4% of pre-tax compensation were fully matched by the Company during the years ended June 30, 1999, 2000, and 2001. The plan also provides for discretionary contributions by the Company. The Company contributed approximately $317,000, $259,000 and $539,000 to the 401(k) plan during the years ended June 30, 1999, 2000, and 2001, respectively. There were no discretionary contributions made by the Company during the years ended June 30, 1999, 2000, and 2001.

12. INCOME TAXES

Income taxes are provided using the liability method. Accordingly, deferred tax assets and liabilities are recognized for future tax consequences attributable to the difference between the carrying amount of the assets and liabilities for financial statement and income tax purposes, as determined under the enacted tax laws and rates that will be in effect when the differences are expected to reverse.

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)

12. INCOME TAXES (CONTINUED)

The income tax provision (benefit) for the years ended June 30, 1999, 2000 and 2001 calculated under the provisions of SFAS No.109 "Accounting for Income Taxes" are as follows:

	YEARS ENDED JUNE 30,		
	1999	2000	2001
	(In thousands)		
Current:			
Federal	$ -	$ 1,635	$ -
State and local	-	307	(342)
	-	1,942	(342)
Deferred, net of valuation allowance	-	(1,942)	1,942
	$ -	$ -	$ 1,600

During fiscal 2001, the Company recorded $342,000 of investment tax credits with state and local governments.

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

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

	JUNE 30, 2000	JUNE 30, 2001
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards	$ 9,801	$ 14,772
Projects in progress	286	175
Accruals and reserves	582	1,659
Write-down of investments	272	1,280
Deferred revenue	819	-
Non-cash compensation charge	63	-
	11,823	17,886
Valuation allowance for deferred tax assets	(9,658)	(17,401)
	2,165	485
Deferred tax liability:		
Depreciation and amortization	(223)	(485)
Net deferred tax assets	$ 1,942	$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income. For the year ended June 30, 2000, management reversed approximately $1,942,000 of the deferred tax asset valuation allowance reporting an amount that will be realized based on projected fiscal 2001 taxable income. During fiscal 2001, the Company provided a full valuation allowance for the net deferred tax assets at June 30, 2001.

12. INCOME TAXES (CONTINUED)

For the years ended June 30, 1999, 2000 and 2001, the valuation allowance increased approximately $3,276,000, $3,282,000 and $7,743,000, respectively. Approximately $2,035,000 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 $36,950,000 ($11,150,00 and $25,800,000 for the Company and NetSat, respectively), which are due to expire through 2021.

The reconciliation of tax provision (benefit) computed at the U.S. federal statutory tax rates to the income tax expense (benefit) are as follows:

	YEARS ENDED JUNE 30,		
	1999	2000	2001
Tax at U.S. Federal statutory rate......	(34)%	(34)%	(34)%
Expenses not deductible for income tax purposes	-	6	-
Loss for which no tax benefit was received............................	(6)	-	31
State taxes...........................	-	-	(1)
Change in deferred tax asset valuation reserve....................	40	28	14
	- %	- %	10 %

13. SEGMENT INFORMATION

The Company operates through two business segments. Its Ground Segment Systems, Networks and Enterprise Solutions Segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems, networks and enterprise solutions for the complex and changing communications requirements of its customers. Its Data Communications Services Segment, through NetSat, is engaged in providing high-speed, satellite-delivered data communications to developing markets worldwide. NetSat also provides Internet access to customers who have limited or no access to terrestrial network infrastructure capable of supporting the economical delivery of such services.

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

13. SEGMENT INFORMATION (CONTINUED)

The following is the Company's business segment information as of and for the years ended June 30, 1999, 2000 and 2001:

	YEARS ENDED JUNE 3	
	1999	2000
		(IN THOUSANDS)
Revenues:		
Ground Segment Systems, Networks and Enterprise Solutions...	$ 46,397	$ 74,102
Data Communications Services..............................	2,661	11,197
Intercompany eliminations................................	-	(6,728)
Total revenues...	$ 49,058	$ 78,571
Loss from operations:		
Ground Segment Systems, Networks and Enterprise Solutions...	$ (7,070)	$ (137)
Data Communications Services..............................	(2,101)	(7,193)
Interest income..	980	1,727
Interest expense...	(1)	(2,522)
Gain on sale of consolidated subsidiary's common stock........	-	2,353
Gain on sale of investment.................................	-	-
Provision for income taxes.................................	-	-
Minority interests in operations of consolidated subsidiary...	-	2,745
Intercompany eliminations..................................	-	(554)
Net loss...	$ (8,192)	$ (3,581)
Depreciation and amortization:		
Ground Segment Systems, Networks and Enterprise Solutions...	$ 1,007	$ 1,370
Data Communications Services..............................	260	1,977
Intercompany eliminations................................	-	-
Total depreciation and amortization........................	$ 1,267	$ 3,347
Expenditures for long-lived assets:		
Ground Segment Systems, Networks and Enterprise Solutions...	$ 2,907	$ 2,482
Data Communications Services..............................	911	101,249
Intercompany eliminations................................	-	(444)
Total expenditures for long-lived assets....................	$ 3,818	$103,287

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)

13. SEGMENT INFORMATION (CONTINUED)

	JUNE 30, 1999	JUNE 30, 2000
Assets:		(IN THOUSANDS)
Ground Segment Systems, Networks and Enterprise Solutions..	$ 66,307	$ 125,106
Data Communications Services.........................	3,200	109,624
Intercompany eliminations............................	(7,854)	(11,976)
Total assets..	$ 61,653	$ 222,754

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. Concentration of credit risk with respect to accounts receivable is limited due to the limited number of customers and that a substantial portion of accounts receivable are related to balances owed by major satellite communication companies. The timing of cash realization is determined based upon the contract or service agreements with the customers. The Company performs ongoing credit evaluations of its customers' financial condition and in most cases requires a letter of credit or cash in advance for foreign customers. Allowances related to accounts receivable at June 30, 1999, 2000 and 2001, are approximately $107,000, $467,000 and $1,065,000, respectively.

No one customer accounted for more than 10% of consolidated revenues for the year ended June 30, 1999. Two major customers accounted for approximately 27% (16% and 11%) of the Company's consolidated revenues for the year ended June 30, 2000. One major customer accounted for approximately 11% of the Company's consolidated revenues for the year ended June 30, 2001.

Revenues from foreign sales as a percentage of total consolidated revenues are as follows:

	YEARS ENDED JUNE 30,		
	1999	2000	2001
Africa............	14 %	5 %	2 %
South America.....	11 %	2 %	8 %
Asia..............	10 %	12 %	10 %
Europe............	7 %	24 %	21 %

Middle East.......	2 %	10 %	13 %
Australia.........	- %	2 %	2 %
	44 %	55 %	56 %

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade receivables. The Company places its cash and cash equivalents with high quality financial institutions. Substantially all cash and cash equivalents are held in two financial institutions at June 30, 1999 and three financial institutions at June 30, 2000 and 2001, respectively. Cash equivalents are comprised of short-term debt instruments, certificates of deposit of direct or guaranteed obligations of the United States, which are held to maturity and approximate cost. At times, cash may be in excess of FDIC insurance limits.

15. COMMITMENTS AND CONTINGENCIES

Line of Credit

In December 2000, the Company entered into a new $5.0 million credit facility consisting of (1) a $2.0 million secured domestic line of credit and (2) a $3.0 million secured export-import guaranteed line of credit. This new credit facility has substantially the same terms as the previous facility, which expired in December 2000. Each line of credit bears interest at the prime rate (6.75% at June 30, 2001) plus 0.50% per annum, and is collateralized by a first security interest on all the Company's assets. The credit facility contains certain financial covenants, which the Company is in compliance with at June 30, 2001. As of June 30, 2000 and 2001, no amounts were outstanding under this credit facility.

Letters of Credit

The Company utilizes standby letters of credit to secure certain bid proposals and performance guarantees, while NetSat utilizes standby letters of credit to secure certain service agreements with third party vendors in the normal course of business. As of June 30, 2000 and 2001, NetSat had standby letters of credit outstanding of approximately $1,031,000 and $846,000, respectively, which is secured by the Company's domestic credit facility. The Company provides cash collateral for certain letters of credit. As of June 30, 2000 and 2001, cash collateral related to bid proposals amounted to approximately $150,000 and $0, respectively, and cash collateral related to performance guarantees amounted to approximately $271,000, and $588,000, respectively. These amounts are included in restricted cash in the accompanying consolidated balance sheets.

Lease Commitments

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

During the year ended June 30, 2000, NetSat signed a 15-year and a 14-year capital lease for certain satellite space segment transponders. On April 1, 2001, the Company renegotiated the 15-year satellite space segment transponder lease resulting 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 will be amortized into income over the remaining term of the lease.

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

At June 30, 2001, future minimum lease payments under the remaining non-cancelable capital lease agreement is as follows:

2002	$ 1,387
2003	1,387
2004	1,387
2005	1,387
2006	1,387
Thereafter	11,323
Total minimum lease payments	$ 18,258
Less amount representing interest	(7,723)
Present value of minimum lease payments, net	$ 10,535

The satellite space segment transponders under capital leases are included in fixed assets with a capitalized cost of approximately $96,361,000 and $11,257,000, and accumulated amortization of approximately $1,195,000 and $1,158,000, at June 30, 2000 and 2001, respectively.

Future minimum lease payments under non-cancelable operating leases for satellite space segment services, Internet access services, teleport services, office space and other equipment with terms of one year or more consist of the following at June 30, 2001 (In thousands):

2002	$ 21,173
2003	19,232
2004	17,531
2005	15,686
2006	13,510
Thereafter	19,904
	$107,036

Rent expense for satellite space segment services, Internet access services, teleport services, office space and other equipment was approximately $1,042,000, $5,990,000 and $11,051,000 for the years ended June 30, 1999, 2000 and 2001, respectively.

Pursuant to several of NetSat's Internet access service agreements, NetSat is the lessor of satellite earth station equipment that are classified as operating leases and expire at various dates through 2004. Equipment under these operating leases are included in fixed assets in the accompanying consolidated balance sheets and have a net book value of approximately $610,000 and $289,000 at June 30, 2000 and 2001. At June 30, 2001, future minimum lease payments to be received from equipment under various operating leases are as follows (In thousands):

2002....................................	$ 74
2003....................................	1

	$ 75
	=====

GLOBECOMM SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(CONTINUED)

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

During fiscal 2001, the Company entered into two thirty-six month operating lease agreements for satellite space segment transponders on two satellites that are expected to be launched and become operational during fiscal 2003. Future payments due on such agreements through fiscal 2006 are approximately $6,000,000. Such satellite space segment services will begin when the satellite transponders are commercially operational, as defined in the agreements.

Employment Agreements

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

GLOBECOMM SYSTEMS INC.
JUNE 30, 2001

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS: CHARGED TO COSTS AND EXPENSES	ADDITIONS: CHARGED TO OTHER ACCOUNTS-DESCRIBE	DED DE
Year ended June 30, 1999:				
Reserves and allowances deducted from asset accounts:				
Reserve for estimated doubtful accounts receivable	$ 40,000	$ 100,000	$ -	$ (
Valuation allowance on deferred tax assets	3,100,000	-	3,276,000(b)	
	$ 3,140,000	$ 100,000	$ 3,276,000	$ (
Year ended June 30, 2000:				
Reserves and allowances deducted from asset accounts:				
Reserve for estimated doubtful accounts receivable	$ 107,000	$ 360,000	$ -	$
Valuation allowance on deferred tax assets	6,376,000	-	3,282,000(b)	
	$ 6,483,000	$ 360,000	$ 3,282,000	$
Year ended June 30, 2001:				
Reserves and allowances deducted from asset accounts:				
Reserve for estimated doubtful accounts receivable	$ 467,000	$ 680,000	$ -	$ (
Valuation allowance on deferred tax assets	9,658,000	-	7,743,000(b)	
Reserve on leased receivable balances	-	1,073,000	-	
	$10,125,000	$ 1,753,000	$ 7,743,000	$ (

(a) Reduction in allowance due to write-off of accounts receivable balances.

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

INDEX TO EXHIBITS:

Exhibit No.

3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).

3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1999).

4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the "Registration Statement")).

10.1 Form of Registration Rights Agreement dated as of February 1997 (incorporated by reference to exhibit 10.1 of the Registration Statement).

10.2 Form of Registration Rights Agreement dated May 30, 1996 (incorporated by reference to exhibit 10.2 of the Registration Statement).

10.3 Form of Registration Rights Agreement dated December 31, 1996, as amended (incorporated by reference to exhibit 10.3 of the Registration Statement).

10.4 Letter Agreement for purchase and sale of 199,500 shares of Common Stock dated November 9, 1995 between the Registrant and Thomson-CSF (incorporated by reference to exhibit 10.4 of the Registration Statement).

10.5 Investment Agreement dated February 12, 1996 by and between Shiron Satellite Communications (1996) Ltd. and the Registrant (incorporated by reference to exhibit 10.5 of the Registration Statement).

10.6* Stock Purchase Agreement dated as of August 30, 1996 by and between C-Grams Unlimited Inc. and the Registrant (incorporated by reference to exhibit 10.6 of the Registration Statement).

10.7 Memorandum of Understanding dated December 18, 1996 by and between NetSat Express, Inc. and Applied Theory Communications, Inc. (incorporated by reference to exhibit 10.7 of the Registration Statement).

10.8 Stock Purchase Agreement dated as of August 23, 1996 by and between NetSat Express, Inc. and Hughes Network Systems, Inc. (incorporated by reference to exhibit 10.8 of the Registration Statement).

10.9 Employment Agreement dated as of January 27, 1997 between the Registrant and David E. Hershberg (incorporated by reference to exhibit 10.9 of the Registration Statement).

10.10 Employment Agreement dated as of January 27, 1997 between the Registrant and Kenneth A. Miller (incorporated by reference to exhibit 10.10 of the Registration Statement).

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

10.12 1997 Stock Incentive Plan (incorporated by reference to exhibit 10.14 of the Registration Statement).

10.13	Investment Agreement dated August 21, 1998 by and between McKibben Communications LLC and the Registrant (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended June 30, 1998).
10.14	1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the S-8 Registration Statement).
10.15	Rights Agreement, dated as of December 3, 1998, between the Company and American Stock Transfer and Trust Company, which includes the form of Certificate of Designation for the Series A Junior Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4 of Company's Current Report on Form 8-K dated December 3, 1998).
10.16	Common Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and Globix Corporation (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).
10.17	Series A Preferred Stock Purchase Agreement dated August 11, 1999 between NetSat Express, Inc. and George Soros (incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended June 30, 1999).
10.18	Common Stock Purchase Agreement dated October 28, 1999 between NetSat Express, Inc., Globecomm Systems, Inc. and Reuters Holdings Switzerland SA (incorporated by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 1999).
10.19	Negotiable Promissory Note, dated April 1, 2001, between the Registrant and Donald Woodring (filed herewith).
21	Subsidiaries of the Registrant (filed herewith).
23	Consent of Independent Auditors (filed herewith).

* Confidential treatment granted for portions of this agreement.