

May 5, 2008

Integral Grows 2Q Revenue 55 Percent

Share Price Climbs as Financial Performance Improves

LON RAINS, WASHINGTON

When Integral Systems pulled the plug last year on its attempt to find a buyer, officials with the provider of satellite-control software and ground systems insisted that the offers they were getting — and the company's stock price — did not reflect its underlying strengths.

Investors may finally have warmed to that message. Lanham, Md.-based Integral's stock price spent most of 2007 in the mid- to low 20s, but has risen steadily this year since the first day of trading Jan. 2 when it closed at \$22.51 a share. After several weeks of steady gains, Integral's price jumped from \$33 a share April 28, the day the company's second quarter financials were released, to close at \$36 a share at the end of trading May 1 on the Nasdaq over-the-counter market — close to its 52-week high of \$36.77 a share.

For the period ending March 31, Integral reported total revenue of \$44.8 million compared to \$29 million during the same period a year ago. For the first six months of its fiscal year, revenue was \$82 million compared to \$56 million at the midway point of 2007. Gross profit for the second quarter was \$32.6 million compared to \$20.3 million last year. Integral has posted a profit of \$54.6 million for the first half of 2007 compared to \$38.6 million during the same period last year.

In an interview in February, Integral Chief Executive Alan Baldwin and Pete Gaffney, the company's executive vice

president, expressed frustration that investors did not seem to value Integral's financial strengths, noting that other companies that had never turned a profit enjoyed higher stock valuations.

So Integral launched an effort to show potential investors that it could grow while still maintaining strong profitability. "We have to be able to show a growth story," Baldwin said. "We are serious about adding to the size of the company, but at the same time growing revenue. We still feel the market will come around to appreciate good fundamental financial results. Strong EBITDA (earnings before interest, taxes, depreciation and amortization), revenue and cash flow should be important. These are the things we do and we do them very well."

In an interview May 2, Baldwin and Gaffney said the second quarter was the latest of several in which Integral had solid financial results and reiterated that their goals remain the same.

"The investment community may be coming around," Baldwin acknowledged.

Both executives said Integral continues to look for acquisition targets among companies with strong fundamentals.

"We're looking for strategic fits of other companies that can complement our customer base," Gaffney said. He noted that Integral is especially interested in acquiring a company with a strong customer base in the U.S. intelligence community. The fit can be ground systems, software or analysis or all of those,

he said.

Baldwin said Integral also wants to increase its business with the U.S. Defense Department, NASA, the National Oceanic and Atmospheric Administration and similar government agencies in other countries.

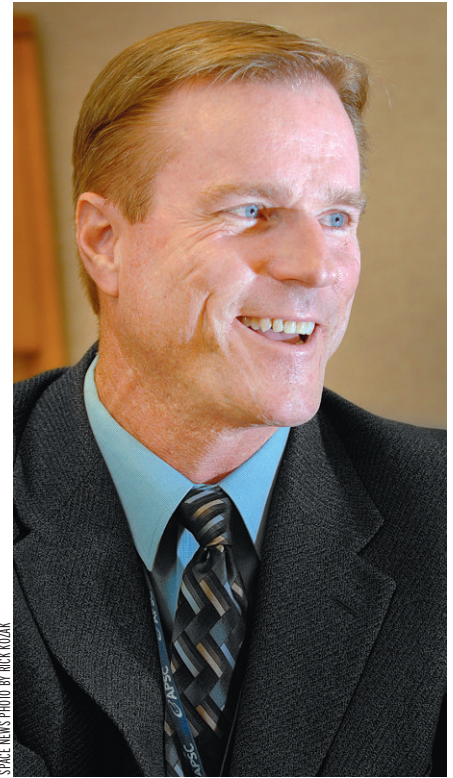
Integral announced April 22 that it has hired Richard Wathen to be vice president of mergers and acquisitions. From 1999 to 2004, Wathen served as chief financial officer for netASP, a \$50 million managed-technology services company where he once led the selection, acquisition and integration of nine companies in just eight months, Integral said in a press release.

Baldwin said Integral also is investing in internal research and development to improve existing product lines and develop new ones while increasing its business development activities and adding manpower to ensure current customers "continue to believe in us."

As far as international sales, Baldwin and Gaffney said they are hopeful that promised reforms to the U.S. International Traffic in Arms Regulations (ITAR), which govern space-related exports, might finally become reality this year.

"We think ITAR is at least headed in the right direction," Gaffney said.

Gaffney noted that while Integral would like to see jurisdiction for licensing exports of its product lines move from the U.S. State Department to the Commerce Department, the company has been able to make international



Pete Gaffney

sales under the current export regime. "We've been able to sell into every country except China, and I don't see them making changes so drastic that we can sell into China," he said.

Baldwin said shifting export jurisdiction for satellite equipment back to Commerce — where it was up until 1999, would be a boon to U.S. companies.

"We're hopeful and at the same time we are kind of waiting to see what the changes will actually be and how meaningful they are," Baldwin said.

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Integral To Debut New Satellite Ground System Application This Summer

TURNER BRINTON, WASHINGTON

Soon after ProtoStar of Bermuda launches its first satellite in June, the company will become the first to use Integral Systems' new Executive Dashboard software, which will collect data from each part of the satellite ground control system and provide a snapshot view of the key system performance attributes.

Lanham, Md.-based Integral signed on with ProtoStar in July 2007 to provide an end-to-end ground system for the company's ProtoStar-1 satellite, the first of two planned satellites that will provide satellite television and broadband Internet capabilities for a wide area of Asia. Integral also announced April 22 it has been awarded a contract to provide a similar satellite ground system for ProtoStar-2, currently slated for launch in early 2009.

Integral already has delivered the full ground system for ProtoStar-1, which is the most comprehensive commercial satellite ground system Integral has ever built. Integral provided its Epoch Integrated Product Suite satellite control system and Orbital Analysis System

flight dynamics system for both the primary and back-up ground control systems. The system also includes a network management system built by Newpoint Technologies, an Integral subsidiary, and a carrier monitoring and interference detection system built by SAT Corp., another Integral sub-

mand and control systems, said in an April 16 interview. The Dashboard is designed to be a bolt-on addition to any integrated ground system that can be incorporated at any time.

Historically, satellite ground control systems have been a series of "stovepipe" systems, Kramer said. One part of a sys-

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James Kramer

subsidiary. Globecom Systems is a subcontractor providing the radio frequency conversion and antenna systems.

Though the ground system is ready to begin controlling the satellite as soon as it is launched, ProtoStar will not be using the Executive Dashboard software until its official release in July, James Kramer, Integral's director of commercial com-

tem would be used for command and control of the satellite, another part would be used for monitoring the payload, and other parts would be used for managing the network and controlling other satellite equipment.

As such, each of those systems traditionally has been monitored separately, Kramer said. Integral's Dashboard

product monitors each system, pulls that data together and applies predefined performance metrics to it to generate a graphic display of information. It is not designed to generate up-to-the-second satellite data; rather, it provides critical system information and serves as an analysis tool that can show what has been going on for the past hour, week or month.

"This is the kind of data extraction tool that businesses have been using for years to improve operational efficiency," Kramer said. "We're only now bringing it to the satellite command and control industry."

The most significant challenge in designing this software was not a technical one; it was defining the key performance indicators that turn volumes of data into actionable information for executives, Kramer said. After unveiling a prototype of the software at the Satellite 2008 conference in Washington, Integral received heavy interest in the product and now is fine-tuning the key performance indicators based on input from potential customers.

Though initially designed for geosynchronous communications satellites, the Dashboard

software could work with a variety of satellite mission types. Users representing a broad spectrum of satellite operators, including the commercial industry and U.S. civilian and military agencies, have been providing feedback. Though he could not say if the Dashboard product was a part of the bid Integral and partner Northrop Grumman Corp. submitted to the U.S. Air Force to build the ground control system for the GPS 3 constellation, Kramer said the service has indicated its interest in the product.

"Fundamentally, a ground system is a ground system," Kramer said. "You could define key performance indicators for more than just [geosynchronous communications] operations. You could even use this in an application that doesn't have satellites just to monitor a ground network you are controlling."

Many customer suggestions, such as reconfigurable key performance indicators and automated reporting capability, will not be available on the first commercial version released in July but will be added to later versions of the software.

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