

Integral Systems May Exceed its 2009 Profit Forecast, CEO Says

By Edmond Lococo

Jan. 6 (Bloomberg) -- [Integral Systems Inc.](#), the Lanham, Maryland-based maker of software that tracks and controls satellites, may beat its 2009 profit forecast as the company expands sales beyond the U.S. military, Chief Executive Officer [John Higginbotham](#) said.

There is a "high probability of upside" to the company's forecast last month that earnings per share in fiscal 2009 would match the \$1.01 reported in the 12 months ended Sept. 30, Higginbotham said yesterday.

Since taking the helm of the company in July, Higginbotham, who holds a Master of Business Administration degree from [Harvard Business School](#), has made diversifying the company's customer base a top goal. The U.S. Air Force is Integral's largest single customer, accounting for 53 percent of last year's sales of \$160.2 million.

"It's been a challenging exercise to get our heads around all the various ways we can grow and then prioritize those," Higginbotham, 53, said in a phone interview.

Integral will pursue more work with other branches of the U.S. military besides the Air Force, as well as work for civil government agencies and commercial customers, he said. Commercial customers including Ottawa-based fixed-satellite services operator Telesat accounted for just 18 percent of [sales](#) last year.

Integral, founded in 1982, also will expand revenue as it shifts its business model away from selling licenses for software such as its Epoch suite for satellite telemetry, tracking and control to supplying more support-services agreements, Higginbotham said.

\$30 Billion Market

Integral competes with companies including [Lockheed Martin Corp.](#) and Northrop Grumman Corp. in the global market for satellite ground station and equipment estimated at more than \$30 billion in 2007, according to the Space Foundation, a Colorado Springs, Colorado-based non-profit group that promotes space-related endeavors.

Only one analyst, [Richard Ryan](#) of Minneapolis-based Dougherty and Co., currently has a 2009 forecast for Integral and it matches the company's projection, according to [Bloomberg data](#). Ryan has a "buy" rating on Integral's shares and didn't return calls for comment.

"Our guidance is \$1.01 and we believe we have substantial possibility of greater than" that figure, Higginbotham said.

Higginbotham was previously founder and managing partner of SpaceVest Capital, which invested \$270 million in technology companies and is now called RedShift Ventures and based in Arlington, Virginia. He replaced [Alan Baldwin](#), who served as interim chief executive from June 2007 through July 2008.

Integral rose 23 cents to \$12.38 at 10:03 a.m. New York time in Nasdaq Stock Market composite [trading](#) and has dropped 54 percent since reaching \$26.36 on Aug. 14. That's almost double the 28 percent drop in the Standard and Poor's 500 Index over the same period.

Building Confidence

Some investors may be frustrated with Integral's management history predating Higginbotham's arrival, said [Bonnie Wachtel](#), a company director from 1988 to 2006 who holds 30,000 shares.

[Steven Chamberlain](#), an Integral founder who served as CEO from June 1992 until 2006, was given a suspended sentence and five years of supervised probation in May 2006 after pleading guilty to a fourth-degree sexual offense. Last month, Integral was required to restate results for the first three quarters of 2008 because of errors on the timing of revenue recognition.

"Integral is a government contractor with a lot of strength and proprietary products," Wachtel said. "Middle management is superb but top management has been extremely disturbing."

With the company's new executive lineup and a "comprehensive" audit completed by Ernst & Young last month, the company now has a "clean benchmark," Higginbotham said.

"This was a big milestone and one that, I would hope, would build confidence in investors," Higginbotham said. "We're serious about running a very tight ship and making sure we're operating with the best possible practices out there."

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