

GLOBECOMM SYSTEMS INC  
Form 10-Q  
February 11, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

For the quarterly period ended December 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-22839

**Globecomm Systems Inc.**

(Exact name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**11-3225567**  
(I.R.S. Employer  
Identification No.)

**11788**  
(Zip Code)

**Registrant's telephone number, including area code: (631) 231-9800**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

As of February 6, 2013, there were 23,531,634 shares of the registrant's Common Stock outstanding.

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**GLOBECOMM SYSTEMS INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GLOBECOMM SYSTEMS INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	<b>December 31, 2012 (Unaudited)</b>	<b>June 30, 2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 73,551	\$ 72,196
Accounts receivable, net	55,955	59,224
Inventories	36,378	30,664
Prepaid expenses and other current assets	4,770	4,101
Deferred income taxes	3,559	7,041
Total current assets	174,213	173,226
Fixed assets, net	49,376	47,712
Goodwill	68,999	68,463
Intangibles, net	18,110	19,331
Other assets	1,388	1,335
Total assets	\$ 312,086	\$ 310,067
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 34,741	\$ 34,017
Deferred revenues	6,676	4,626
Accrued payroll and related fringe benefits	4,519	6,728
Other accrued expenses	6,946	11,918
Current portion of long term debt	6,100	6,100
Total current liabilities	58,982	63,389
Other liabilities	164	230
Long term debt	11,525	14,575
Deferred income taxes	12,485	12,485
Commitments and contingencies		
Stockholders' equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at December 31, 2012 and June 30, 2012		
Common stock, \$.001 par value, 50,000,000 shares authorized, shares issued: 23,950,285 at December 31, 2012 and 23,510,377 at June 30, 2012	24	24
Additional paid-in capital	207,372	205,162
Retained earnings	24,710	18,205
Treasury stock, at cost, 465,351 shares at December 31, 2012 and June 30, 2012	(2,781)	(2,781)
Accumulated other comprehensive loss	(395)	(1,222)
Total stockholders' equity	228,930	219,388

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Total liabilities and stockholders' equity	\$ 312,086	\$ 310,067
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See accompanying notes.

**Table of Contents****GLOBECOMM SYSTEMS INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues from services	\$ 50,172	\$ 54,652	\$ 97,344	\$ 104,891
Revenues from infrastructure solutions	29,567	40,538	63,558	61,269
<b>Total revenues</b>	<b>79,739</b>	<b>95,190</b>	<b>160,902</b>	<b>166,160</b>
Costs and operating expenses:				
Costs from services	33,779	35,821	65,783	69,786
Costs from infrastructure solutions	26,707	36,370	58,779	54,492
Selling and marketing	4,418	4,855	8,706	9,448
Research and development	986	1,748	1,939	3,504
General and administrative	7,911	8,391	15,606	16,734
Earn-out fair value adjustments		(4,100)		(10,574)
<b>Total costs and operating expenses</b>	<b>73,801</b>	<b>83,085</b>	<b>150,813</b>	<b>143,390</b>
Income from operations	5,938	12,105	10,089	22,770
Interest income	82	57	167	112
Interest expense	(103)	(157)	(217)	(322)
Income before income taxes	5,917	12,005	10,039	22,560
Provision for income taxes	2,088	2,755	3,534	3,983
<b>Net income</b>	<b>\$ 3,829</b>	<b>\$ 9,250</b>	<b>\$ 6,505</b>	<b>\$ 18,577</b>
Basic net income per common share	\$ 0.17	\$ 0.42	\$ 0.29	\$ 0.85
Diluted net income per common share	\$ 0.17	\$ 0.41	\$ 0.28	\$ 0.82
Weighted-average shares used in the calculation of basic net income per common share	22,639	22,038	22,530	21,903
Weighted-average shares used in the calculation of diluted net income per common share	22,987	22,656	22,921	22,594

See accompanying notes.

**Table of Contents****GLOBECOMM SYSTEMS INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 3,829	\$ 9,250	\$ 6,505	\$ 18,577
Other comprehensive income, net of tax:				
Foreign currency translation	\$ 433	\$ (123)	827	(427)
Comprehensive income	\$ 4,262	\$ 9,127	\$ 7,332	\$ 18,150

See accompanying notes.

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## GLOBECOMM SYSTEMS INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(In thousands)

(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Earnings	Comprehensive (Loss) Income	Shares	Amount	Stockholders Equity
Balance at June 30, 2012	23,510	\$ 24	\$ 205,162	\$ 18,205	\$ (1,222)	465	\$ (2,781)	\$ 219,388
Proceeds from exercise of stock options	77		324					324
Stock compensation expense			1,886					1,886
Grant of restricted shares	363							
Net income				6,505				6,505
Foreign currency translation					827			827
Balance at December 31, 2012	23,950	\$ 24	\$ 207,372	\$ 24,710	\$ (395)	465	\$ (2,781)	\$ 228,930

See accompanying notes.



**Table of Contents****GLOBECOMM SYSTEMS INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Six Months Ended</b>	
	<b>December 31, 2012</b>	<b>December 31, 2011</b>
<b>Operating Activities:</b>		
Net income	\$ 6,505	\$ 18,577
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,792	6,196
Provision for doubtful accounts	(171)	168
Deferred income taxes	3,482	3,688
Stock compensation expense	1,886	1,765
Earn-out fair value adjustments		(10,574)
Changes in operating assets and liabilities:		
Accounts receivable	3,368	(11,506)
Inventories	(5,704)	(7,290)
Prepaid expenses and other current assets	(625)	(592)
Other assets	(29)	166
Accounts payable	753	11,151
Deferred revenue	2,000	3,329
Accrued payroll and related fringe benefits	(2,224)	(501)
Other accrued expenses	(286)	(74)
Other liabilities	(66)	96
<b>Net cash provided by operating activities</b>	<b>14,681</b>	<b>14,599</b>
<b>Investing Activities:</b>		
Purchases of fixed assets	(5,896)	(5,137)
Cash payment for earn-outs	(4,700)	(4,500)
<b>Net cash used in investing activities</b>	<b>(10,596)</b>	<b>(9,637)</b>
<b>Financing Activities:</b>		
Proceeds from exercise of stock options	324	616
Repayments of debt	(3,050)	(3,050)
<b>Net cash used in financing activities</b>	<b>(2,726)</b>	<b>(2,434)</b>
Effect of foreign currency translation on cash and cash equivalents	(4)	(124)
<b>Net increase in cash and cash equivalents</b>	<b>1,355</b>	<b>2,404</b>
Cash and cash equivalents at beginning of period	72,196	47,964
<b>Cash and cash equivalents at end of period</b>	<b>\$ 73,551</b>	<b>\$ 50,368</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$ 221	\$ 331

Cash paid for income taxes

See accompanying notes.

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**GLOBECOMM SYSTEMS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

**(Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for such periods have been included. The consolidated balance sheet at June 30, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three and six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2013, or for any future period.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2012 and the accompanying notes thereto contained in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 13, 2012.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries, Globecomm Network Services Corporation ( GNSC ), Globecomm Services Maryland LLC ( GSM ), Cachendo LLC ( Cachendo ), B.V. Mach 6 ( Mach 6 ), Telaurus Communications LLC ( Telaurus ), Melat Networks Inc. ( Melat ), Evolution Communications Group Limited B.V.I. ( Evocomm ), Carrier to Carrier Telecom B.V. ( C2C ), Globecomm Systems SA Proprietary Ltd ( Globecomm SA ) and ComSource Inc. ( ComSource ) (collectively, the Company ). All significant intercompany balances and transactions have been eliminated in consolidation.

*Accounting Estimates*

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

*Revenue Recognition*

The Company recognizes revenue for its production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectability is reasonably assured, delivery has occurred and the contractual performance specifications have been met. The Company's standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than the Company's long-term complex production-type projects. Revenue is recognized on the Company's standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer's contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the features or capabilities of the equipment, does not require complex software integration and interfacing and the



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Company has not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the equipment. The estimated value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the estimated value of installation, the Company will defer recognition of revenues, determined on a contract-by-contract basis equal to the estimated value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues in the accompanying consolidated balance sheets.

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

Revenues from services consist of the access, hosted, professional services and lifecycle support service lines. Service revenues are recognized ratably over the period in which services are provided. Payments received in advance of services are deferred until the period such services are provided and are presented as deferred revenues in the accompanying consolidated balance sheets.

The Company enters into multiple-element arrangements with its customers including hardware, engineering solutions, professional services and maintenance services. For arrangements involving multiple deliverables, the Company evaluates and separates each deliverable to determine whether it represents a separate unit of accounting based on whether the delivered item has value to the customer on a stand-alone basis. Consideration is allocated to each deliverable based on the item's relative selling price. The Company uses a hierarchy to determine the selling price to be used to allocate revenue to each deliverable as follows: (i) vendor-specific objective evidence of the selling price; (ii) third party evidence of selling price; and (iii) best estimate of selling price.

### *Costs from Services*

Costs from services consist primarily of satellite space segment charges, fiber connectivity fees, voice termination costs and network operations expenses. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the Network Operation Centers, on a 24 hour a day, seven-day a week basis, including personnel and related costs and depreciation.

### *Costs from Infrastructure Solutions*

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

### *Research and Development*

Research and development expenditures are expensed as incurred.

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**Table of Contents***Stock-Based Compensation*

Stock compensation expense was approximately \$1,017,000 and \$1,886,000 for the three and six months ended December 31, 2012, respectively. Stock compensation expense was approximately \$905,000 and \$1,765,000 for the three and six months ended December 31, 2011, respectively. As of December 31, 2012, there was approximately \$6,917,000 of unrecognized compensation cost related to non-vested restricted shares and restricted share units. The cost is expected to be recognized over a weighted-average period of 2.2 years. As of December 31, 2012, there was approximately \$107,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 2.0 years.

*Goodwill and Other Intangible Assets*

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. Goodwill and other indefinite life intangible assets are tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The Company performs the goodwill impairment test annually in the fourth fiscal quarter. There have been no events in the three and six months ended December 31, 2012 that would indicate that goodwill and indefinite life intangible assets were impaired.

*Comprehensive Income*

Comprehensive income for the three and six months ended December 31, 2012 of approximately \$4,262,000 and \$7,332,000, respectively, includes an unrealized foreign currency translation gain of approximately \$433,000 and \$827,000, respectively. Comprehensive income for the three and six months ended December 31, 2011 of approximately \$9,127,000 and \$18,150,000, respectively, includes an unrealized foreign currency translation loss of approximately \$123,000 and \$427,000, respectively.

*Income Taxes**Deferred Tax Assets*

Consistent with the provisions of ASC Topic No. 740, Income Taxes, the Company regularly estimates the ability to recover deferred income taxes, reports such deferred tax assets at the amount that is determined to be more-likely-than-not recoverable, and estimates income taxes in each of the taxing jurisdictions in which the Company operates. This process involves estimating current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenue and expenses for tax and accounting purposes. These differences may result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company is required to assess the likelihood that the deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, a valuation allowance must be provided based on estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for current and deferred taxes involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations. This evaluation considers several factors, including an estimate of the likelihood of generating sufficient taxable income in future periods, the effect of temporary differences, the expected reversal of deferred tax liabilities, and available tax planning strategies.

*Uncertainty in Tax Positions*

The Company recognizes in its financial statements the benefits of tax return positions if that tax position is more likely than not to be sustained on audit based on its technical merits. At December 31, 2012, the Company had a liability for unrecognized tax benefits of approximately \$1,475,000, which, if recognized in the future, would favorably impact the Company's effective tax rate. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that none of these tax positions will be resolved within the next twelve months. The Company records both accrued interest and penalties related to income tax matters, if any, in the provision for income taxes in the accompanying consolidated statements of operations. As of December 31, 2012, the Company had not accrued any amounts for the potential payment of penalties and interest.



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The Company is subject to taxation in the U.S. and various state and foreign taxing jurisdictions. The Company's federal tax returns for the 2009 through 2012 tax years remain subject to examination. The Company files returns in numerous state jurisdictions with varying statutes of limitation.

### *Product Warranties*

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

### *Recent Accounting Pronouncements*

In September 2011, the FASB issued amended guidance related to Intangibles—Goodwill and Other: Testing Goodwill for Impairment. The amendment is intended to simplify how entities test goodwill for impairment. The amendment permits an entity to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

In June 2011, the FASB issued amended guidance related to Comprehensive income—Comprehensive Income: Presentation of Comprehensive Income. This amendment revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI. For public entities, the ASU's amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial condition or results of operations.

## **2. Basic and Diluted Net Income Per Common Share**

Basic net income per common share is computed by dividing the net income for the period by the weighted-average number of common shares outstanding for the period. For diluted earnings per share the weighted average shares include the incremental common shares issuable upon the exercise of stock options, warrants, and unvested restricted shares (using the treasury stock method). The incremental common shares for stock options, warrants and unvested restricted shares are excluded from the calculation of diluted net income per share, if their effect is anti-dilutive. Diluted net income per share for the three and six months ended December 31, 2012 excludes the effect of approximately 507,000 stock options and restricted shares in the calculation of the incremental common shares, as their effect would have been anti-dilutive. Diluted net income per share for the three and six months ended December 31, 2011 excludes the effect of approximately 73,000 stock options and restricted shares in the calculation of the incremental common shares, as their effect would have been anti-dilutive.



**Table of Contents****3. Inventories**

Inventories consist of the following:

	December 31, 2012 (Unaudited)	June 30, 2012
	(In thousands)	
Raw materials and component parts	\$ 2,575	\$ 1,998
Work-in-progress	39,103	30,717
	41,678	32,715
Less progress payments	5,300	2,051
	\$ 36,378	\$ 30,664

**4. Segment Information**

The Company operates through two business segments. Its services segment, through GNSC, GSM, Cachendo, Mach 6, Telaurus, Melat, Evocomm, C2C, Globecomm SA and ComSource, provides satellite communication services capabilities. Its infrastructure solutions segment, through Globecomm Systems Inc., provides design, engineering and installation of complex ground segment systems and networks.

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

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The following is the Company's business segment information for the three and six months ended December 31, 2012 and 2011:

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(Unaudited)			
	(In thousands)			
<b>Revenues:</b>				
Services	\$ 50,615	\$ 57,821	\$ 98,347	\$ 109,285
Infrastructure solutions	29,567	40,587	63,558	61,480
Intercompany eliminations	(443)	(3,218)	(1,003)	(4,605)
<b>Total revenues</b>	<b>\$ 79,739</b>	<b>\$ 95,190</b>	<b>\$ 160,902</b>	<b>\$ 166,160</b>
<b>Income (loss) from operations:</b>				
Services (1)	\$ 7,689	\$ 13,740	\$ 14,500	\$ 27,192
Infrastructure solutions	(1,756)	(1,545)	(4,416)	(4,335)
Interest income	82	57	167	112
Interest expense	(103)	(157)	(217)	(322)
Intercompany eliminations	5	(90)	5	(87)
<b>Income before income taxes</b>	<b>\$ 5,917</b>	<b>\$ 12,005</b>	<b>\$ 10,039</b>	<b>\$ 22,560</b>
<b>Depreciation and amortization:</b>				
Services	\$ 2,435	\$ 2,615	\$ 5,027	\$ 5,342
Infrastructure solutions	384	434	765	854
<b>Total depreciation and amortization</b>	<b>\$ 2,819</b>	<b>\$ 3,049</b>	<b>\$ 5,792</b>	<b>\$ 6,196</b>
<b>Expenditures for long-lived assets:</b>				
Services	\$ 2,627	\$ 2,100	\$ 4,927	\$ 3,252
Infrastructure solutions	448	1,312	969	1,885
<b>Total expenditures for long-lived assets</b>	<b>\$ 3,075</b>	<b>\$ 3,412</b>	<b>\$ 5,896</b>	<b>\$ 5,137</b>

(1) The three and six months ended December 31, 2011 include gains recorded for fair value adjustments of \$4.1 million and \$10.6 million, respectively.

**5. Long Term Debt***Line of Credit*

On July 18, 2011, the Company entered into a secured credit facility with Citibank N.A. which expires October 31, 2014. The credit facility is comprised of a \$72.5 million line of credit (the "Line") which includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$10 million available for commercial letters of credit; (c) a line for term loans, each having a term of no more than five years, in the aggregate amount of up to \$50 million that can be used for acquisitions; and (d) \$15 million available for revolving credit borrowings. The Company is required to pay a commitment fee on the average daily unused portion of the total commitment based on the Company's consolidated leverage ratio (currently 25 basis points per annum) payable quarterly in arrears.

At the discretion of the Company, advances under the Line bear interest at the prime rate or LIBOR plus applicable margin based on the Company's consolidated leverage ratio and are collateralized by a first priority security interest on all of the personal property of the Company.

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At December 31, 2012, the applicable margin on the LIBOR rate was 200 basis points. The Company is required to comply with various ongoing financial covenants, including with respect to the Company's leverage ratio, minimum cash balance, fixed charge coverage ratio and EBITDA minimums, with which the Company was in compliance at December 31, 2012. As of December 30, 2012, in addition to the C2C Acquisition Loan and ComSource Acquisition Loan described below there were standby letters of credit of approximately \$8,083,000, which were applied against and reduced the amounts available under the credit facility.

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As of December 31, 2012 debt consisted of the following (in thousands):

C2C Acquisition Loan	\$ 5,625
ComSource Acquisition Loan	12,000
<b>Total debt</b>	<b>17,625</b>
Less current portion	6,100
<b>Long term debt</b>	<b>\$ 11,525</b>

*C2C Acquisition Loan*

The purchase of C2C and Evocomm was funded, in part, through a five-year \$12,500,000 acquisition term loan ( C2C Acquisition Loan ) provided by Citibank, N.A on March 5, 2010, under the then-existing credit facility. The C2C Acquisition Loan bears interest at the prime rate or LIBOR plus 200 basis points, at the Company's discretion. The balance is to be paid in equal monthly instalments, excluding interest, of approximately \$208,333 beginning on April 1, 2010. The interest rate in effect as of December 31, 2012 was approximately 2.2% per annum. At December 31, 2012, \$5,625,000 was outstanding of which \$2,500,000 was due within one year.

*ComSource Acquisition Loan*

The purchase of ComSource was funded, in part, through a five-year \$18,000,000 acquisition term loan ( ComSource Acquisition Loan ) provided by Citibank, N.A on April 7, 2011. The ComSource Acquisition Loan bears interest at the prime rate or LIBOR plus 200 basis points, at the Company's discretion. The balance is to be paid in equal monthly instalments, excluding interest, of \$300,000 beginning on May 1, 2011. The interest rate in effect as of December 31, 2012 was approximately 2.2% per annum. At December 31, 2012, \$12,000,000 was outstanding of which \$3,600,000 was due within one year.

Remaining future minimum payments under these agreements, excluding interest, for the next five fiscal years are expected to be as follows (in thousands):

2013	\$ 3,050
2014	6,100
2015	5,475
2016	3,000

**6. Intangibles**

Intangibles subject to amortization consisted of the following:

	December 31, 2012	June 30, 2012	Est. useful life
	(In thousands)		
Customer relationships	\$ 24,890	\$ 24,617	7-18 years
Software	1,287	1,287	5 years
Contracts backlog	2,461	2,406	6 months-2 years
Covenant not to compete	126	125	3-4 years
Trademark	383	381	5 years
	29,147	28,816	

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Less accumulated amortization	11,037	9,485
Intangibles, net	\$ 18,110	\$ 19,331

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Amortization expense of approximately \$728,000 and \$1,456,000 was included in general and administrative expenses in the three and six months ended December 31, 2012, respectively. Amortization expense of \$1,061,000 and \$2,122,000 was included in general and administrative expenses in the three and six months ended December 31, 2011, respectively.

Remaining amortization expense for the following five fiscal years related to these intangible assets is expected to be as follows (in thousands):

2013	\$ 1,444
2014	2,871
2015	2,578
2016	2,228
2017	2,183

**7. Fair Value Measurements**

The Company has categorized its assets and liabilities recorded at fair value based upon the fair value hierarchy. The levels of fair value hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related asset or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

ASC 820 Fair Value Measurements and Disclosures requires the use of observable market inputs (quoted market prices) when measuring fair value and requires Level 1 quoted price to be used to measure fair value whenever possible.

Foreign currency forward exchange contracts are classified within Level 2, as the valuation inputs are based on quoted prices and market observable data of similar instruments.

There were no transfers in or out of the Level 1 and 2 in the six months ended December 31, 2012.

The fair value of indefinite-lived assets, which consists of goodwill, is measured on a non-recurring basis in connection with the Company's annual goodwill impairment test. The fair value of the reporting unit to which goodwill has been assigned is determined using a projected discounted cash flow analysis based on unobservable inputs including gross profit, discount rate, working capital requirements, capital expenditures, depreciation and terminal value assumptions and are classified within Level 3 of the valuation hierarchy.

The book value of the Company's debt of \$17,625,000 approximates fair value based upon its variable interest rate.

The fair value of the earn-out accruals is determined using an analysis of projected results as compared to targets in the related acquisition agreement. This analysis was performed using an income approach valuation method based on unobservable inputs including revenues, gross profit and discount rate, along with the underlying entity's history and outlook and are classified within Level 3 of the valuation hierarchy. The following table sets forth the changes in fair value measurements attributable to the earn-out accruals during the six months ended December 31, 2012 (in thousands):

Balance at June 30, 2012	\$ 4,700
Payment of earn-out	(4,700)
Balance at December 31, 2012	\$



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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

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

#### **Overview**

Our business is global and subject to technological and business trends in the telecommunications marketplace. We derive much of our revenue from the government marketplace and developing countries. Our business is therefore affected by geopolitical developments involving areas of the world in which our customers are located, particularly in developing countries and areas of the world involved in armed conflicts, which directly impacts our military-related business. Our business may also be affected by the government's budgetary issues and its recent efforts to reduce the national deficit and defense spending, which may have a significant effect on our results of operations.

The services and products we offer include: access, hosted, professional services and lifecycle support services, pre-engineered and systems design and integration products. To provide these services and products, we engineer all the necessary satellite and terrestrial facilities as well as provide the integration services required to implement those facilities. We also operate and maintain managed networks and provide life cycle support services on an ongoing basis. Our customers generally have network service requirements that include point-to-point or point-to-multipoint connections via a hybrid network of satellite and terrestrial facilities. In addition to government entities, our customers are communications service providers, commercial enterprises and media and content broadcasters.

Since our services and products are often sold into areas of the world which do not have fiber optic land-based networks, a substantial portion of our revenues are derived from, and are expected to continue to be derived from, developing countries. These countries carry with them more enhanced risks of doing business than in developed areas of the world, including the possibility of armed conflicts or the risk that more advanced land-based telecommunications will be implemented over time, and less developed legal protection for intellectual property.

During the past several years many businesses including ours, have faced uncertain economic environments. If the long-term growth in demand for communications networks does not increase from recent depressed levels, the demand for our infrastructure solutions may continue to decline or grow more slowly than we expect. 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, many companies have found it difficult to raise capital to finish building their communications networks and, therefore, have placed fewer orders. Our infrastructure solutions segment in particular was impacted by this decreased demand and capital spending by our customers, and we incurred operating losses in this segment over the past several years. We cannot predict the extent to which demand will increase, nor the timing of such demand. The growth and profitability of our services segment in recent periods may not be sufficient to offset any prolonged continuation of a decline in business in our infrastructure segment.



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In the three months ended December 31, 2012, 13% of our revenues were derived from services rendered to each of the US Army CECOM and Inmarsat Government. In the six months ended December 31, 2012, 18% and 13% of our revenues were derived from services rendered to the US Army CECOM and Inmarsat Government, respectively. A significant portion of this revenue with US Army CECOM is derived from a multi-year, \$74 million agreement ( Contract A ) which is a pass-through subcontract entailing little risk of unexpected costs and under which we earn comparatively lower profit margins. In addition we performed work as a subcontractor to Inmarsat Government since February 2012 for services for the U.S. Government. Previously, similar services were provided to Northrop Grumman Information Technologies Inc. ( Northrop ) which had a prime contract with the U.S. Government. Our contract for these services as a subcontractor to Inmarsat Government has an initial term ending December 31, 2013 at a somewhat lower profit margin than our prior agreement with Northrop. This subcontract is expected to continue to be material to our results of operations and has provided profit margin significantly above our norm. Although the identity of customers and contracts may vary from period to period, we have been, and expect to continue to be, dependent on revenues from a small number of customers or contracts in each period in order to meet our financial goals. From time to time our services to these customers are located in developing countries or otherwise subject to unusual risks.

In a majority of cases, revenues related to contracts for infrastructure solutions and services have been fixed-price contracts. The profitability of such contracts is subject to inherent uncertainties as to the cost of performance. Cost overruns may be incurred as a result of unforeseen obstacles, including both physical conditions and unexpected problems encountered in engineering design and testing. Since our business is frequently concentrated in a limited number of large contracts, a significant cost overrun on any single contract could have a material adverse effect on our business, financial condition and results of operations. In the years ended June 30, 2012 and June 30, 2011, we recorded \$1.5 million and \$2.1 million, respectively, for additional costs incurred on a fixed-price contract in the infrastructure segment ( Contract B ). In the three and six months ended December 31, 2012, we recorded \$1.0 million for additional costs incurred on Contract B. In addition, in the three and six months ended December 31, 2012, we recorded \$0.1 million and \$1.0 million, respectively for additional costs incurred on another fixed-price contract. The additional costs were due in large part to unexpected difficulties resulting in unexpected substantial costs associated with engineering and production issues. The revenues associated with both loss programs are expected to be recognized in fiscal years 2013 and 2014 and will have no profit margin associated with them, which will negatively impact our gross margin percentages in fiscal years 2013 and 2014 as milestones are reached, as they have negatively impacted our gross margin percentage in the three and six months ended December 31, 2012 and the fiscal year ended June 30, 2012.

Contract costs generally include purchased material, direct labor, overhead and other direct costs. Anticipated contract losses are recognized, as they become known. Costs from infrastructure solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor costs. Costs from services consist primarily of satellite space segment charges, voice termination costs, network operations expenses and Internet connectivity fees. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations center on a twenty-four hour a day, seven-day a week basis, including personnel and related costs and depreciation. Selling and marketing expenses consist primarily of salaries, travel and living costs for sales and marketing personnel. Research and development expenses consist primarily of salaries and related overhead expenses. General and administrative expenses consist of expenses associated with our management, finance, contract and administrative functions, as well as amortization of intangible assets.

### **Critical Accounting Policies**

Certain of our accounting policies require judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Actual results may differ from these judgments under different assumptions or conditions. Our accounting policies that require management to apply significant judgment include:

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**Table of Contents*****Revenue Recognition Infrastructure Solutions***

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

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

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

We enter into multiple-element arrangements with our customers including hardware, engineering solutions, professional services and maintenance services. For arrangements involving multiple deliverables, we evaluate and separate each deliverable to determine whether it represents a separate unit of accounting based on whether the delivered item has value to the customer on a stand-alone basis. Consideration is allocated to each deliverable based on the item's relative selling price. We use a hierarchy to determine the selling price to be used to allocate revenue to each deliverable as follows: (i) vendor-specific objective evidence of the selling price; (ii) third party evidence of selling price; and (iii) best estimate of selling price.

***Costs from Infrastructure Solutions***

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

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### ***Goodwill and Other Intangible Assets Impairment***

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. The amount of goodwill recorded in our balance sheet has significantly increased over the recent past as we have made several acquisitions. Goodwill and other indefinite life intangible assets are tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The impairment test is dependent upon estimated future cash flows of the services segment. There have been no events during the six months ended December 31, 2012 that would indicate that the goodwill and indefinite life intangible assets were impaired.

### ***Deferred tax assets***

We regularly estimate our ability to recover deferred income taxes, report such deferred tax assets at the amount that is determined to be more-likely-than-not recoverable, and we have to estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenue and expenses for tax and accounting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheets.

We are required to assess the likelihood that our deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we have to provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for current and deferred taxes involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations. This evaluation considers several factors, including an estimate of the likelihood of generating sufficient taxable income in future periods, the effect of temporary differences, the expected reversal of deferred tax liabilities and available tax planning strategies.

At December 31, 2012 and June 30, 2012 we had a liability for unrecognized tax benefits of approximately \$1,475,000, which if recognized in the future, would favorably impact our effective tax rate.

### ***Stock-Based Compensation***

Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the appropriate vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, and the expected volatility of our stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on our consolidated financial statements.

As of December 31, 2012, there was approximately \$6,917,000 of unrecognized compensation cost related to non-vested restricted shares and restricted share units. The cost is expected to be recognized over a weighted-average period of 2.2 years. As of December 31, 2012, there was approximately \$107,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 2.0 years.

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### ***Allowances for Doubtful Accounts***

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including our past transaction history with the customer and the creditworthiness of the customer. An assessment of the inherent risks in conducting our business with foreign customers is also made since a significant portion of our revenues is international. Management specifically analyzes accounts receivable, historical bad debts, customer concentrations, customer creditworthiness and current economic trends. If the financial condition of our customers were to deteriorate in the future, resulting in an impairment of their ability to make payments, additional allowances may be required.

### ***Inventories***

Inventories consist primarily of work-in-progress from costs incurred in connection with specific customer contracts, which are stated at the lower of cost or market value. In assessing the realizability of inventories, we are required to make estimates of the total contract costs based on the various elements of the work-in-progress. It is possible that changes to these estimates could cause a reduction in the net realizable value of our inventories.

### ***Valuation of contingent consideration***

Contingent consideration relates to the fair value of the earn-out accrual for acquisitions. We estimate this accrual by using an analysis of projected results as compared to targets in the related acquisition agreement. This analysis is performed using an income approach valuation method based on unobservable inputs including revenues, gross profit and discount rate, along with the underlying entity's history and outlook. As of December 31, 2012 and June 30, 2012, we have estimated the fair value of the earn-out for the ComSource acquisition for the twelve month period ending March 31, 2013 to be zero.

### **Recent Accounting Pronouncements**

In September 2011, the FASB issued amended guidance related to Intangibles - Goodwill and Other: Testing Goodwill for Impairment. The amendment is intended to simplify how entities test goodwill for impairment. The amendment permits an entity to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance did not have a material impact on our consolidated financial condition or results of operations.

In June 2011, the FASB issued amended guidance related to Comprehensive income- Comprehensive Income: Presentation of Comprehensive Income. This amendment revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI. For public entities, the ASU's amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not have a material impact on our consolidated financial condition or results of operations.

### **Results of Operations**

#### ***Three and Six Months Ended December 31, 2012 and 2011***

*Revenues from Services.* Revenues decreased by \$4.5 million, or 8.2%, to \$50.2 million for the three months ended December 31, 2012 and decreased by \$7.5 million, or 7.2%, to \$97.3 million for the six months ended December 31, 2012, compared to \$54.7 million and \$104.9 million for the three and six months ended December 31, 2011, respectively. The decrease in revenues was primarily due to a decrease in our access service offering in the government marketplace due to the reduction of services in Iraq.

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*Revenues from Infrastructure Solutions.* Revenues decreased by \$11.0 million, or 27.1%, to \$29.6 million for the three months ended December 31, 2012 and increased by \$2.3 million, or 3.7%, to \$63.6 million for the six months ended December 31, 2012, compared to \$40.5 million and \$61.3 million for the three and six months ended December 31, 2011, respectively. The decrease in revenues in the three months ended December 31, 2012 was primarily driven by the decrease in achievement of revenue milestones under Contract A which was substantially complete as of December 31, 2012 with remaining backlog of approximately \$1.1 million. The increase in revenue in the six months ended December 31, 2012 was due to increase in milestones achieved under Contract A in the three months ended September 30, 2012 as compared to September 30, 2011.

*Costs from Services.* Costs from services decreased by \$2.0 million, or 5.7%, to \$33.8 million for the three months ended December 31, 2012 and decreased by \$4.0 million, or 5.7%, to \$65.8 million for the six months ended December 31, 2012, compared to \$35.8 million and \$69.8 million for the three and six months ended December 31, 2011, respectively. Gross margin decreased to 32.7% of revenues for the three months ended December 31, 2012 and decreased to 32.4% of revenues for the six months ended December 31, 2012, compared to 34.5% and 33.5% for the three and six months ended December 31, 2011, respectively. The decrease in the gross margin was primarily driven by a decrease in revenue in the government marketplace due to a reduction of services in Iraq and a reduction in margin due to the customer change from Northrop to Inmarsat Government on a government program for which we provide subcontracting services. The gross margin in the services segment has been a key driver of our consolidated income from operations. The future relationship between the revenue and margin growth of our operating segments will depend on a variety of factors, including the timing of major contracts, which are difficult to predict.

*Costs from Infrastructure Solutions.* Costs from infrastructure solutions decreased by \$9.7 million, or 26.6%, to \$26.7 million for the three months ended December 31, 2012 and increased by \$4.3 million, or 7.9%, to \$58.8 million for the six months ended December 31, 2012, compared to \$36.4 million and \$54.5 million for the three and six months ended December 31, 2011, respectively. The gross margin decreased to 9.7% in the three months ended December 31, 2012 and decreased to 7.5% for the six months ended December 31, 2012, compared to 10.3% and 11.1% for the three and six months ended December 31, 2011, respectively. The decrease in gross margin was mainly attributable to significant proportion of revenue from Contract A, which has lower than normal margin. The Company expects a significant portion of previously delayed shipments on Contract B, which carries no margin to be made in the remainder of fiscal 2013 and fiscal 2014 which in each case will negatively impact our gross margin percentage in the remainder of fiscal 2013 and fiscal 2014 as milestones are reached under that contract.

*Selling and Marketing.* Selling and marketing expenses decreased by \$0.4 million, or 9.0%, to \$4.4 million for the three months ended December 31, 2012 and decreased by \$0.7 million, or 7.9%, to \$8.7 million for the six months ended December 31, 2012, compared to \$4.9 million and \$9.4 million for the three and six months ended December 31, 2011, respectively. The decrease was a result of cost cutting initiatives.

*Research and Development.* Research and development expenses decreased by \$0.8 million, or 43.6%, to \$1.0 million for the three months ended December 31, 2012 and decreased by \$1.6 million, or 44.7%, to \$1.9 million for the six months ended December 31, 2012, compared to \$1.7 million and \$3.5 million for the three and six months ended December 31, 2011, respectively. The decrease was principally due to higher than normal costs in the three and six months ended December 31, 2011 associated with the Tempo Enterprise Media Platform and infrastructure program-related development that has been completed.

*General and Administrative.* General and administrative expenses decreased by \$0.5 million, or 5.7%, to \$7.9 million for the three months ended December 31, 2012 and decreased by \$1.1 million, or 6.7%, to \$15.6 million for the six months ended December 31, 2012 compared to \$8.4 million and \$16.7 million for the three and six months ended December 31, 2011, respectively. The decrease was a result of a decrease in amortization of intangibles in the three and six months ended December 31, 2012 of approximately \$0.3 million and \$0.7 million, respectively, a decrease in accruals for our management incentive plan and other cost cutting initiatives.

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*Earn-out Fair Value Adjustments.* The earn-out fair value adjustment in the three and six months ended December 31, 2011 was due to the reduction in the estimated earn-out accrual related to the acquisition of ComSource due to reduction in the forecasted results.

*Interest Income.* Interest income remained consistent for the three and six months ended December 31, 2012, as compared to the prior period.

*Interest Expense.* Interest expense decreased by \$0.1 million for the three and six months ended December 31, 2012, as a result of a decrease in outstanding debt resulting from the monthly repayments.

*Provision for Income Taxes.* The provision for income taxes decreased by \$0.7 million, or 24.2%, to \$2.1 million for the three months ended December 31, 2012 and decreased by \$0.4 million, or 11.3%, to \$3.5 million for the six months ended December 31, 2012, compared to \$2.8 million and \$4.0 million for the three and six months ended December 31, 2011, respectively. The effective tax rate increased to 35% from 23% and 18% for the three and six months ended December 31, 2011, respectively, due to the impact in the prior year of an earn-out fair value gain which was not subject to tax.

## **Liquidity and Capital Resources**

At December 31, 2012, we had working capital of \$115.2 million, including cash and cash equivalents of \$73.6 million, net accounts receivable of \$56.0 million, inventories of \$36.4 million and prepaid expenses and other current assets of \$4.8 million and deferred income taxes of \$3.6 million, offset by \$34.7 million in accounts payable, \$6.9 million in other accrued expenses, \$6.7 million in deferred revenue, \$6.1 million in current portion of long term debt, and \$4.5 million in accrued payroll and related fringe benefits.

At June 30, 2012, we had working capital of \$109.8 million, including cash and cash equivalents of \$72.2 million, net accounts receivable of \$59.2 million, inventories of \$30.7 million, prepaid expenses and other current assets of \$4.1 million and deferred income taxes of \$7.0 million, offset by \$34.0 million in accounts payable, \$4.6 million in deferred revenues, \$6.7 million in accrued payroll and related fringe benefits, \$11.9 million in accrued expenses and \$6.1 million in current portion of long term debt.

Net cash provided by operating activities during the six months ended December 31, 2012 was \$14.7 million. This primarily related to net income of \$6.5 million, a non-cash item representing depreciation and amortization expense of \$5.8 million comprised of depreciation expense related to the network operations center and satellite earth station equipment and amortization expense related to acquisitions, a decrease in deferred income taxes of \$3.5 million due to net income generated in the period, a decrease in accounts receivable of \$3.4 million due to the timing of billings and collections from customers, an increase in deferred revenue of \$2.0 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts and non-cash stock compensation expense of \$1.9 million, offset by an increase in inventory of \$5.7 million due to the timing of shipments and purchases of equipment for milestones to be reached in future periods and a decrease in accrued payroll and related fringe benefits of \$2.2 million due to payment of awards under our management incentive plan.

Net cash provided by operating activities during the six months ended December 31, 2011 was \$14.6 million. This primarily related to net income of \$18.6 million, an increase in accounts payable of \$11.2 million due to the increase in inventories and timing of payments to vendors, a non-cash item representing depreciation and amortization expense of \$6.2 million comprised of depreciation expense related to the network operations center and satellite earth station equipment and amortization expense related to acquisitions, a decrease in deferred income taxes of \$3.7 million due to net income generated in the period, an increase in deferred revenue of \$3.3 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts, and non-cash stock compensation expense of \$1.8 million, partially offset by an increase in accounts receivable of \$11.5 million due to the timing of billings and collections from customers, a non-cash earn-out fair value adjustments of \$10.6 million and an increase in inventory of \$7.3 million due to the timing of shipments and purchases of equipment for milestones to be reached in future periods.

Net cash used in investing activities during the six months ended December 31, 2012 was \$10.6 million, which related to the purchase of Tempo Enterprise Media Platform assets, network operations center and teleport assets, hosted mobile core switch assets and the implementation of an enterprise resource planning software system of \$5.9 million and the payment for the ComSource earn-out of \$4.7 million for the earn-out period ended March 31, 2012.

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Net cash used in investing activities during the six months ended December 31, 2011 was \$9.6 million, which related to the cash portion of the payment for the C2C and Evocomm earn-out of \$4.5 million and the purchase of network operations center assets, teleport assets, and the implementation of an enterprise resource planning software system of \$5.1 million.

Net cash used in financing activities during the six months ended December 31, 2012 was \$2.7 million, which primarily related to repayment of long term debt of \$3.1 million partially offset by \$0.3 million of proceeds from the exercise of stock options.

Net cash used in financing activities during the six months ended December 31, 2011 was \$2.4 million, which primarily related to repayment of long term debt of \$3.1 million partially offset by \$0.6 million of proceeds from the exercise of stock options.

On July 18, 2011, we entered into a new secured credit facility with Citibank N.A. which expires October 31, 2014. The credit facility is comprised of a \$72.5 million line of credit (the Line ) which includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$10 million available for commercial letters of credit; (c) a line for term loans, each having a term of no more than five years, in the aggregate amount of up to \$50 million that can be used for acquisitions; and (d) \$15 million available for revolving credit borrowings. We are required to pay a commitment fee on the average daily unused portion of the total commitment based on our consolidated leverage ratio (currently 25 basis points per annum) payable quarterly in arrears.

At our discretion, advances under the Line bear interest at the prime rate or LIBOR plus applicable margin based on our leverage ratio and are collateralized by a first priority security interest on all of our personal property. At December 31, 2012, the applicable margin on the LIBOR rate was 200 basis points. We are required to comply with various ongoing financial covenants, including with respect to our leverage ratio, minimum cash balance, fixed charge coverage ratio and EBITDA minimums, with which we were in compliance at December 31, 2012. As of December 31, 2012, \$17.6 million was outstanding under acquisition loans, of which \$6.1 million was due within one year. In addition, there were standby letters of credit of approximately \$8.1 million, which were applied against and reduced the amounts available under the credit facility as of December 31, 2012.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through fiscal year ending June 30, 2021. Future minimum lease payments due on these leases through December 31, 2013 are approximately \$38.1 million.

At December 31, 2012, we had contractual obligations and other commercial commitments as follows (in thousands):

**Contractual Obligations and Commercial Commitments**

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating leases	\$ 38,372	\$ 23,678	\$ 12,277	\$ 2,398	\$ 19
Long term debt	17,625	6,100	10,325	1,200	
<b>Total contractual obligations</b>	<b>\$ 55,997</b>	<b>\$ 29,778</b>	<b>\$ 22,602</b>	<b>\$ 3,598</b>	<b>\$ 19</b>

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	Total Amounts Committed	Amount of Commitment Expiration Per Period			More Than 5 years
		Less than 1 year	1-3 years	4-5 years	
<b>Other Commercial Commitments</b>					
Standby letters of credit	\$ 8,083	\$ 7,419	\$ 664	\$	\$
Total commercial commitments	\$ 8,083	\$ 7,419	\$ 664	\$	\$

Our tax liability for uncertain tax positions was approximately \$1.5 million at December 31, 2012. Until formal resolutions are reached between us and the tax authorities, the timing and amount of possible audit settlements for uncertain tax benefits is not practicable. Therefore, we do not include this obligation in the table of contractual obligations.

As part of the acquisition of ComSource, the former ComSource shareholders are also entitled to receive additional cash payments of up to \$12.1 million for the twelve months ending March 31, 2013, subject to an earn-out based upon the acquired business achieving certain earnings milestones in the twelve month period. As of December 31 and June 30, 2012, the Company has estimated the fair value of the earn-out to be zero for the earn-out period ending March 31, 2013. In July 2012, \$4.7 million was paid to the former shareholders of ComSource for the earn-out period ended March 31, 2012.

We expect that our cash and working capital requirements for operating activities may increase as we continue to implement our business strategy. Management anticipates additional working capital requirements for work in progress for orders as obtained and that we may periodically experience negative cash flows due to variances in quarter to quarter operating performance and if cash is used to fund any future acquisitions of complementary businesses, technologies and intellectual property. We will use existing working capital and, if required, use our credit facility to meet these additional working capital requirements.

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the services and infrastructure solutions business, the nature and timing of customer orders and the level of capital requirements related to the expansion of our service offerings. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements at least through December 31, 2013. However, we cannot assure you that there will be no unforeseen events or circumstances that would consume available resources significantly before that time.

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, capital expenditures, research and development activities, the timing and extent of our marketing programs, and we may be required to reduce headcount. We cannot assure you that additional financing will be available to us on acceptable terms, or at all.

**Off-Balance Sheet Arrangements**

We have not entered into any off-balance sheet arrangements.

**Related Party Transactions**

None.



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### **Item 3. 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 results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from rates earned on our excess available cash balances and from our variable interest rate long term debt. Under our current positions, we do not use interest rate derivative instruments to manage exposure to interest rate changes. A change in our interest rate of 50 basis points on our long term debt would have resulted in additional interest expense of \$23,000 and \$49,000 in the three and six months ended December 31, 2012.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Our Chief Executive Officer and Chief Financial Officer have reviewed the effectiveness of our disclosure controls and procedures as of December 31, 2012 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

*Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Part II Other Information**

### **Item 1. Legal Proceedings**

On October 11, 2012, Harvey Wenz filed a purported shareholder class action complaint in New York State Supreme Court, Suffolk County, captioned *Wenz v. Globecomm Systems Inc., et al.*, Index No. 031747/2012 (N.Y. Sup. Ct. Suffolk County), seeking to enjoin the annual shareholder meeting of the Company scheduled for November 15, 2012 until the Company made certain additional disclosures. On October 22, 2012, the complaint was amended to add as a plaintiff Joan Wenz, another purported shareholder of the Company. Plaintiffs alleged that the Directors of the Company breached their fiduciary duties by failing to disclose in the Company's October 5, 2012 Definitive Proxy Statement certain information concerning proposals in the Proxy to (i) amend the 2006 Stock Incentive Plan, and (ii) provide stockholders with a non-binding, advisory vote on the Company's compensation program for its named executives. The lawsuit also alleged that the Company aided and abetted these alleged breaches of fiduciary duty. In addition to an injunction, plaintiffs sought unspecified damages and attorneys' fees. On November 2, 2012, plaintiffs moved by order to show cause for a preliminary injunction enjoining the November 15, 2012 shareholder vote as the two proposals noted above. The court denied plaintiffs' motion for a preliminary injunction on November 14, 2012. On November 29, 2012, plaintiffs voluntarily discontinued the action with prejudice as to themselves and without prejudice as to all other Globecomm shareholders.

### **Item 1A. Risk Factors**

#### **Risks Related to Our Business**

*Since sales of telecommunications equipment are dependent on the growth of communications networks, if market demand for these networks does not increase from recent depressed levels, the revenue and profitability of our infrastructure solutions segment are likely to decline, which may not be offset by growth in our services segment.*

We derive, and expect to continue to derive, a significant amount of revenues from the sale of telecommunications equipment, in particular, satellite infrastructure solutions. During the past several years many businesses, including ours, have faced uncertain economic environments. If the long-term growth in demand for

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communications networks does not increase from recent depressed levels, the demand for our infrastructure solutions may continue to decline or grow more slowly than we expect. 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, many companies have found it difficult to raise capital to finish building their communications networks and, therefore, have placed fewer orders. Our infrastructure solutions segment in particular was impacted by this decreased demand and capital spending by our customers and we have incurred operating losses in that segment for several years. Further, increased competition among satellite ground segment systems and network manufacturers has increased pricing pressures and depressed margins. As a result, we may not be able to grow our infrastructure business, our revenues may decline from current levels and our results of operations may be harmed. We cannot predict the extent to which demand will increase, nor the timing of such demand. The growth and profitability of our services segment in recent periods may not be sufficient to offset any prolonged continuation of a decline in business in our infrastructure segment.

***A limited number of customer contracts, including those in which we provide subcontractor services for a prime contractor, account for a significant portion of our revenues, and the inability to replace a key customer contract or the failure of the customer to implement its plans, including the loss of a prime contract by a prime contractor, would adversely affect our results of operations, business and financial condition.***

We rely on a small number of customer contracts, including those in which we provide subcontractor services for a prime contractor, for a large portion of our revenue. In the three and six months ended December 31, 2012, 13% of our revenues were derived from each of US Army CECOM and Inmarsat Government and 18% and 13% of our revenues were derived from each of US Army CECOM and Inmarsat Government, respectively. A significant portion of the revenue from US Army CECOM is derived from a multi-year, \$74 million agreement which is a pass-through subcontract entailing little risk of unexpected costs and under which we earn comparatively low profit margins. In addition, we performed work as a subcontractor to Inmarsat Government since February 2012 for services for the U.S. Government. Previously, similar services were provided to Northrop which had a prime contract with the U.S. Government. Our contract for these services as a subcontractor to Inmarsat Government has an initial term ending December 31, 2013 at a somewhat lower profit margin than under our prior agreement with Northrop. This subcontract is expected to continue to be material to our results of operations and has provided profit margin significantly above our norm. In addition, we have agreements with two customers to provide equipment and services from which we expect to generate a significant portion of revenues. If our key customers are unable to implement their business plans, the market for these customers' services declines, political or military conditions make performance impossible or if any or all of the major customers modify or terminate their agreements with us, or a prime contractor we are working with loses its contract, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

***We have derived, from time to time, a substantial portion of our revenues from the government marketplace, and a downturn or other reduction in defense spending in this marketplace, including as a result of the U.S. military's withdrawal from combat in Afghanistan would adversely affect us.***

In the three and six months ended December 31, 2012, we derived 59% and 60%, respectively, of our consolidated revenues from the government marketplace. This business, in particular the service segment therein, tends to have higher gross margins than other markets we serve. A future reduction in the proportion of our business from the government marketplace, or the recent decreases and expected further decreases in the government agency budgets, would negatively impact our future results of operations.

There are a number of other risks associated with the government marketplace; specifically, purchasing decisions of agencies are subject to political influence, contracts are subject to cancellation if government funding becomes unavailable, and unsuccessful bidders may challenge contracts that are awarded to us, which can lead to increased costs, delays and possible loss of contracts. In particular, the mounting government deficits and efforts to reduce expenditures in upcoming budgets and Congressional initiative have resulted in failures to fund various government programs. A withdrawal of military forces from areas of conflict could result in curtailed spending in military programs in which we participate, particularly in Afghanistan, from which we have generated a significant amount of revenue in recent periods and from which combat troops are currently expected to be completely withdrawn by the end of 2014.

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*We often act as a subcontractor, particularly in the government marketplace and our results could be adversely affected by the prime contractor's inability to obtain or renew its contracts with the ultimate customer.*

We regularly act as subcontractor to prime contractors (or subcontractors), principally in the government marketplace. In these subcontractor arrangements, we have no control over the contracting process and we may not be able to influence or control issues that arise between the prime contractor and its customer. Our future success may be materially impaired if the companies for which we serve as subcontractor cannot obtain or renew their contracts with the ultimate customer, which has happened in the past, including the expiration of the U.S. Government's prime contract with Northrop. Also, disputes between a prime contractor and its customer could result in a customer terminating the contract, which could negatively impact our operating results, irrespective of the quality of our services as a subcontractor. Similar considerations apply when we act as a subcontractor to a subcontractor.

*Risks associated with operating in international markets, including areas of conflict, could restrict our ability to expand globally and harm our business and prospects.*

We market and sell a substantial portion of our services and products internationally. We anticipate that international sales will continue to account for a significant portion of our total revenues for the foreseeable future, including revenues from our acquisitions, with a significant portion of the international revenue coming from developing countries, including countries in areas of conflict like Iraq and Afghanistan. There are a number of risks inherent in conducting our business internationally, including:

general political and economic instability in international markets, including the hostilities in Iraq and Afghanistan, could impede our ability to deliver our services and products to customers;

longer payment terms and difficulties in collecting accounts receivable could affect our results of operations;

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

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

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

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

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

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

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

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

potentially adverse taxes could affect our results of operations.

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

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*Since our service revenue has generally increased as a percentage of total revenue in prior periods and generally have higher gross margins, if our service revenue decreases or margins decrease, our results of operations will be harmed.*

While our services revenue generally increased as a percentage of total revenue in prior periods, our services revenue decreased to 60% of total revenue in the six months ended December 31, 2012 compared to 63% in the six months ended December 31, 2011 due to a significant increase in relatively low margin infrastructure revenue, including from Contract A. In the year ended June 30, 2012 services revenues were 58% of total revenue, compared to 69% and 60% in fiscal 2011 and 2010, respectively. The decrease in service revenue as a percentage of total revenue in fiscal 2012 was also due to increase in revenue in infrastructure from Contract A. The service business tends to have significantly higher gross margins than our infrastructure solutions business. A future reduction in the proportion of our services business would disproportionately impact our results of operations

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

We derive a substantial portion of our revenues from fixed-price projects. We assume greater financial risks on a fixed-price project than on a time-and-expense based project. If we miscalculate the resources or time we need for these fixed-price projects, the costs of completing these projects may exceed our original estimates, which would negatively impact our financial condition and results of operations. In the three and six months ended December 31, 2012 we recorded \$1.1 million and \$2.0 million, respectively for additional costs incurred on fixed-price contracts in the infrastructure solutions segment. The additional costs were due in large part to unexpected difficulties and consequential substantial costs associated with engineering and production issues.

*Future acquisitions and strategic investments may divert our resources and management's attention, results may fall short of expectations and, as a result, our operating results may be difficult to forecast and may be volatile.*

We have made several acquisitions and intend to continue pursuing acquisitions or investments in complementary businesses, technologies and product lines as a key component of our growth strategy. Any future acquisitions or investments may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt and amortization expenses related to intangibles assets. Acquisitions involve numerous risks, including:

volatility in reported results due to the reassessment of the valuation of any earn-out provisions included in acquisition transactions;

failure of the acquisition or investment to meet the expectations upon which we made a decision to proceed;

difficulties in the integration of the operations, technologies, products and personnel of an acquired business;

diversion of management's attention from other business concerns;

substantial transaction costs even if the acquisition is abandoned prior to completion;

the potential of significant goodwill and intangibles write-offs in the future in the event that an acquisition or investment does not meet expectations;

increased expenses associated with the consummation and integration of an acquisition; and

loss of key employees, customers or suppliers of any acquired business.

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We cannot assure you that any acquisition or strategic investment will be consummated, will be successful and will not adversely affect our business, results of operations or financial condition.

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

The services segment's revenues and results of operations are dependent on the infrastructure of the network operations center and the Kenneth A. Miller International Teleport at our headquarters in Hauppauge, New York, the network operations centers and teleports at our Laurel, Maryland and Netherlands facilities. A catastrophic event to any of these facilities or to the infrastructure of the surrounding areas would result in significant delays in restoring services capabilities. These capabilities permit us to offer an integrated suite of services and products and the incapacity of our communications infrastructure would also negatively impact our ability to sell our infrastructure solutions. This would result in the loss of revenues and adversely affect our business, results of operations and financial condition.

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

The markets in which we operate are highly competitive and this competition could harm our ability to sell our services and products on prices and terms favorable to us. Our primary competitors in the infrastructure solutions market generally fall into two groups: (1) system integrators, such as Thales, Rockwell Collins and SED Systems, and (2) equipment manufacturers who also provide integrated systems, such as General Dynamics, SATCOM Technologies, Viasat Inc., Alcatel and ND Satcom AG.

In the enterprise and broadcast solutions markets, we compete with other communication companies who provide similar services, such as Encompass Digital Media Inc. and Hughes Networks Systems, LLC. In addition, we may compete with other communications services providers such as CapRock and Inmarsat Government, and satellite owners like SES Americom and Intelsat. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. These competitors may have the financial resources to withstand substantial price competition, may be in a better position to endure difficult economic conditions in international markets and may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances than we do that they could use to their advantage in competitive situations.

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

***If our services and products 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 services and products 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 services and products in developing countries or that customers in these countries will accept our services and products at all. Our ability to penetrate emerging markets in developing countries is dependent upon various factors including:

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

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

the acceptance of our services and products by customers.





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

***We are assessing whether or not to enter into a strategic transaction, the outcome of which is uncertain and which may divert our management and result in significant costs.***

On January 14, 2013, we announced that we retained Needham & Company, LLC to assist us as financial advisor to review potential strategic alternatives to enhance shareholder value. We cannot assure you that the process will result in any transaction or any change in our overall structure or business model. The evaluation of strategic alternatives may significantly divert the attention of our senior management from day-to-day operations. The review may also result in our incurring substantial fees or other expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have registered the trademarks Globecomm, GSI and Telaurus in the United States and various other countries, and the trademark Mach 6 in The Netherlands. We have various other trademarks and service marks registered or pending for registration in the United States and in other countries and may seek registration of other trademarks and service marks in the future. We cannot assure you that registrations will be granted from any of our pending or future applications, or that any registrations that are granted will prevent others from using similar trademarks in connection with related goods and services.

### ***Defending against intellectual property infringement claims could be time consuming and expensive, and if we are not successful, could cause substantial expenses and disrupt our business.***

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



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

#### ***Our stock price is volatile.***

From January 1, 2012 through January 31, 2013, our stock price ranged from a low of \$9.44 per share to a high of \$16.00 per share. The market price of our common stock, like that of the securities of many telecommunications and high technology industry companies, could be subject to significant fluctuations and is likely to remain volatile based on many factors, including the following:

quarterly variations in operating results;

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

anticipated strategic transactions in which we might participate;

changes in financial estimates or recommendations by securities analysts;

general market conditions, including periods of significant volatility; or

domestic and international economic factors unrelated to our performance.

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

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

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

Our common stock is currently traded on the Nasdaq Global Market. Because of the relatively small number of shares that are traded as well as the concentration of ownership of our common stock, it may be difficult for an investor to find a purchaser for shares of our common stock without experiencing significant price volatility. Based solely on information contained in SEC filings, as of January 31, 2013, seven institutional groups of shareholders beneficially own 49% of our outstanding common stock; investment decisions by these shareholders could significantly affect the liquidity and price of our common stock and could result in a substantial shift in ownership of our company. We cannot guarantee that an active trading market will develop, that our common stock will have a higher trading volume than it has historically had or that it will maintain its current market price. This illiquidity could have a material adverse effect on the market price of our stock.

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

Various provisions with respect to votes in the election of directors, special meetings of stockholders, and advance notice requirements for stockholder proposals and director nominations of our amended and restated certificate of incorporation, by-laws and Section 203 of the General Corporation Law of the State of Delaware could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. In addition, we have entered into employment agreements with our senior executives that have change of control provisions that would add substantial costs to an acquisition of us by a third party.



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*We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.*

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our future earnings, capital requirements, financial condition, future prospects and other factors as the board of directors might deem relevant. If we do not pay dividends our stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

*Our business could be negatively affected as a result of actions of activist shareholders.*

Responding to actions by activist shareholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. The perceived uncertainties as to our future direction may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners. The success or failure of our ongoing review of strategic alternatives could result in disputes between the Company and these activist shareholders.

## **Risks Related to Government Approvals**

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

### *Operations and Use of Satellites*

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate FCC licensed teleports in Hauppauge, New York, and Laurel, Maryland subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of the FCC. We also have licenses from Agentschap Telecom, the licensing authority in The Netherlands, for the teleports operated by Mach 6 and Carrier to Carrier in The Netherlands. We cannot guarantee that the applicable government agencies will grant renewals when our existing licenses expire, nor are we assured that the agencies 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 regulations regarding the exposure of humans to radio frequency radiation from our teleports. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our teleports. In addition, prior to a third party acquisition of us, we would need to seek approval from the FCC to transfer the radio transmission licenses we have obtained to the third party upon the consummation of the acquisition. However, we cannot assure you that the FCC will permit the transfer of these licenses. These approvals may make it more difficult for a third party to acquire us.

### *Common Carrier Regulation*

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

### *Foreign Regulations*

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

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

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

Telecommunications carriers providing domestic services in the United States are required to contribute a portion of their gross revenues for the support of universal telecommunications services, telecommunications relay services for the deaf, and/or other regulatory fees. We are subject to some of these fees, and we may be subject to other fees or new or increased taxes and contribution requirements that could affect our profitability, particularly if we are not able to pass them through to customers for either competitive or regulatory reasons.

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

### ***Export of Telecommunications Equipment***

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

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### ***Foreign Ownership***

We may, in the future, be required to seek FCC or other government approval if foreign ownership of our stock exceeds certain specified criteria. Failure to comply with these policies could result in an order to divest the offending foreign ownership, fines, denial of license renewal and/or license revocation proceedings against the licensee by the FCC, or denial of certain contracts from other United States government agencies.

### ***Foreign Corrupt Practices Act***

In light of the nature of countries in which we sell products and services, we are subject to the Foreign Corrupt Practices Act, or the FCPA, which generally prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. The FCPA applies to companies, individual directors, officers, employees and agents. Under the FCPA, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. If we or our intermediaries fail to comply with the requirements of the FCPA, or similar laws of other countries, such as the recently-effective UK Anti-Bribery Act, governmental authorities in the United States or elsewhere, as applicable, could seek to impose civil and/or criminal penalties, which could have a material adverse effect on our business, results of operations, financial conditions and cash flows.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

### **Item 3. Defaults Upon Senior Securities**

None

### **Item 4. Mine Safe Disclosure**

Not Applicable

### **Item 5. Other Information**

None

### **Item 6. Exhibits**

#### **Exhibit No.**

3.1 Amended and Restated Certificate of Incorporation of the Registrant, filed as Exhibit 3.1 to the Annual Report on Form 10-K dated September 28, 1998, as amended February 9, 2005 (Reg. No. 000-22839) (the Annual Report ), and hereby incorporated by reference.

3.2 Amended and Restated By-Laws of the Registrant, filed as Exhibit 3.2 to the Annual Report, and hereby incorporated by reference.

10.1 Form of Director Indemnification Agreement (filed herewith).



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

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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

Pursuant to the requirements 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.**

(Registrant)

Date: February 11, 2013

/s/ DAVID E. HERSHBERG  
David E. Hershberg  
Chairman of the Board and

Chief Executive Officer

(Principal Executive Officer)

Date: February 11, 2013

/s/ ANDREW C. MELFI  
Andrew C. Melfi  
Senior Vice President, Chief Financial  
Officer and Treasurer (Principal

Financial and Accounting Officer)

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