

GLOBECOMM SYSTEMS INC

Form 10-Q

November 09, 2009

**Table of Contents**

**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 September 30, 2009**

**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)**

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

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

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

**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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

**(Do not check if a 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 November 5, 2009, there were 20,877,456 shares of the registrant's Common Stock outstanding.



**GLOBECOMM SYSTEMS INC.**  
Index to the September 30, 2009 Form 10-Q

|   | Page |
|---|------|
| <u>Part I Financial Information</u>   |      |
| <u>Item 1. Financial Statements</u>   | 3    |
| <u>Consolidated Balance Sheets As of September 30, 2009 (unaudited) and June 30, 2009</u>                                 | 3    |
| <u>Consolidated Statements of Operations (unaudited) For the three months ended September 30, 2009 and 2008</u>           | 4    |
| <u>Consolidated Statement of Changes in Stockholders Equity (unaudited) For the three months ended September 30, 2009</u> | 5    |
| <u>Consolidated Statements of Cash Flows (unaudited) For the three months ended September 30, 2009 and 2008</u>           | 6    |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>   | 7    |
| <u>Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations</u>                      | 13   |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>   | 20   |
| <u>Item 4. Controls and Procedures</u>  | 20   |
| <u>Part II Other Information</u>  |      |
| <u>Item 1. Legal Proceedings</u>  | 21   |
| <u>Item 1A. Risk Factors</u>  | 21   |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 29   |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 29   |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>  | 29   |
| <u>Item 5. Other Information</u>  | 29   |
| <u>Item 6. Exhibits</u>   | 30   |
| <u>Signatures</u>   | 31   |
| <u>EX-31.1</u>  |      |
| <u>EX-31.2</u>  |      |
| <u>EX-32</u>  |      |

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

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

|   | <b>September<br/>30,<br/>2009<br/>(Unaudited)</b> | <b>June 30,<br/>2009</b> |
|---|---|--------------------------|
| <b>Assets</b>   |   |                          |
| Current assets:   |   |                          |
| Cash and cash equivalents   | \$ 49,750   | \$ 44,034                |
| Accounts receivable, net  | 37,870  | 45,438                   |
| Inventories   | 24,722  | 17,043                   |
| Prepaid expenses and other current assets   | 1,526   | 2,292                    |
| Deferred income taxes   | 1,058   | 1,058                    |
| <b>Total current assets</b>   | <b>114,926</b>                                    | <b>109,865</b>           |
| <br>  |   |                          |
| Fixed assets, net   | 35,622  | 33,379                   |
| Goodwill  | 25,613  | 25,613                   |
| Intangibles, net  | 10,586  | 11,020                   |
| Deferred income taxes   | 9,553   | 10,214                   |
| Other assets  | 1,444   | 1,448                    |
| <br>  |   |                          |
| <b>Total assets</b>   | <b>\$197,744</b>                                  | <b>\$191,539</b>         |
| <br>  |   |                          |
| <b>Liabilities and Stockholders Equity</b>  |   |                          |
| Current liabilities:  |   |                          |
| Accounts payable  | \$ 27,007   | \$ 22,468                |
| Deferred revenues   | 4,685   | 5,259                    |
| Accrued payroll and related fringe benefits   | 4,197   | 4,348                    |
| Other accrued expenses  | 3,954   | 3,146                    |
| <b>Total current liabilities</b>  | <b>39,843</b>                                     | <b>35,221</b>            |
| <br>  |   |                          |
| Other liabilities   | 809   | 924                      |
| Deferred income taxes   | 582   | 582                      |
| <br>  |   |                          |
| Commitments and contingencies   |   |                          |
| <br>  |   |                          |
| Stockholders equity:  |   |                          |
| Series A Junior Participating, shares authorized, issued and outstanding: none at September 30, 2009 and June 30, 2009                        |   |                          |
| Common stock, \$.001 par value, 50,000,000 shares authorized, shares issued: 21,341,807 at September 30, 2009 and 21,339,807 at June 30, 2009 |   |                          |
|   | 21  | 21                       |

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|   |           |           |
|---|-----------|-----------|
| Additional paid-in capital  | 185,179   | 184,736   |
| Accumulated deficit   | (26,007)  | (27,248)  |
| Treasury stock, at cost, 465,351 shares at September 30, 2009 and June 30, 2009 | (2,781)   | (2,781)   |
| Accumulated other comprehensive income  | 98        | 84        |
| Total stockholders' equity  | 156,510   | 154,812   |
| Total liabilities and stockholders' equity                                      | \$197,744 | \$191,539 |

See accompanying notes.

3

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Table of Contents

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

|  | <b>Three Months Ended</b>         |                                   |
|--|-----------------------------------|-----------------------------------|
|  | <b>September<br/>30,<br/>2009</b> | <b>September<br/>30,<br/>2008</b> |
| Revenues from infrastructure solutions   | \$ 19,068                         | \$ 23,539                         |
| Revenues from services   | 28,608                            | 18,816                            |
| Total revenues   | 47,676                            | 42,355                            |
| Costs and operating expenses:  |                                   |                                   |
| Costs from infrastructure solutions  | 15,795                            | 20,300                            |
| Costs from services  | 20,602                            | 14,205                            |
| Selling and marketing  | 3,202                             | 3,113                             |
| Research and development   | 751                               | 311                               |
| General and administrative   | 5,515                             | 3,661                             |
| Total costs and operating expenses   | 45,865                            | 41,590                            |
| Income from operations   | 1,811                             | 765                               |
| Interest income  | 135                               | 264                               |
| Income before income taxes   | 1,946                             | 1,029                             |
| Provision for income taxes   | 705                               | 201                               |
| Net income   | \$ 1,241                          | \$ 828                            |
| Basic net income per common share  | \$ 0.06                           | \$ 0.04                           |
| Diluted net income per common share  | \$ 0.06                           | \$ 0.04                           |
| Weighted-average shares used in the calculation of basic net income per common share | 20,363                            | 20,152                            |
|  | 20,788                            | 20,690                            |

Weighted-average shares used in the calculation of diluted net income per common share

See accompanying notes.

4

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**Table of Contents**

**GLOBECOMM SYSTEMS INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009**  
(In thousands)  
(Unaudited)

|   | <b>Common Stock</b> |               | <b>Additional</b> |                    | <b>Accumulated</b>   |               | <b>Other</b>  |               | <b>Treasury Stock</b> |               | <b>Total</b> |
|---|---------------------|---------------|-------------------|--------------------|----------------------|---------------|---------------|---------------|-----------------------|---------------|--------------|
|   | <b>Shares</b>       | <b>Amount</b> | <b>Paid-in</b>    | <b>Accumulated</b> | <b>Comprehensive</b> | <b>Income</b> | <b>Shares</b> | <b>Amount</b> | <b>Amount</b>         | <b>Equity</b> |              |
|   |                     |               | <b>Capital</b>    | <b>Deficit</b>     |                      |               |               |               |                       |               |              |
| Balance at June 30, 2009                | 21,340              | \$ 21         | \$ 184,736        | \$ (27,248)        | \$ 84                |               | 465           | \$ (2,781)    |                       | \$ 154,812    |              |
| Proceeds from exercise of stock options | 2                   |               | 11                |                    |                      |               |               |               |                       | 11            |              |
| Stock compensation expense              |                     |               | 432               |                    |                      |               |               |               |                       | 432           |              |
| Comprehensive income:                   |                     |               |                   |                    |                      |               |               |               |                       |               |              |
| Net income                              |                     |               |                   | 1,241              |                      |               |               |               |                       | 1,241         |              |
| Gain from foreign currency translation  |                     |               |                   |                    |                      | 14            |               |               |                       | 14            |              |
| Total comprehensive income              |                     |               |                   |                    |                      |               |               |               |                       | 1,255         |              |
| Balance at September 30, 2009           | 21,342              | \$ 21         | \$ 185,179        | \$ (26,007)        | \$ 98                |               | 465           | \$ (2,781)    |                       | \$ 156,510    |              |

See accompanying notes.

5

**Table of Contents**

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

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>September</b>          | <b>September</b> |
|   | <b>30,</b>                | <b>30,</b>       |
|   | <b>2009</b>               | <b>2008</b>      |
| <b>Operating Activities:</b>  |                           |                  |
| Net income  | \$ 1,241                  | \$ 828           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                  |
| Depreciation and amortization   | 1,778                     | 1,371            |
| Provision for doubtful accounts   | 408                       | 190              |
| Deferred income taxes   | 661                       | 188              |
| Stock compensation expense  | 432                       | 881              |
| Tax benefit from stock compensation plan  |                           | 1                |
| Changes in operating assets and liabilities:                                      |                           |                  |
| Accounts receivable   | 7,205                     | 17,365           |
| Inventories   | (7,664)                   | (444)            |
| Prepaid expenses and other current assets   | 776                       | (83)             |
| Other assets  | 10                        | (13)             |
| Accounts payable  | 4,499                     | (7,821)          |
| Deferred revenue  | (574)                     | (3,931)          |
| Accrued payroll and related fringe benefits                                       | (155)                     | (2,317)          |
| Other accrued expenses  | 779                       | (34)             |
| Other liabilities   | (115)                     | (59)             |
| <br>Net cash provided by operating activities                                     | <br>9,281                 | <br>6,122        |
| <b>Investing Activities:</b>  |                           |                  |
| Purchases of fixed assets   | (3,582)                   | (964)            |
| <br>Net cash used in investing activities   | <br>(3,582)               | <br>(964)        |
| <b>Financing Activities:</b>  |                           |                  |
| Proceeds from exercise of stock options   | 11                        | 55               |
| <br>Net cash provided by financing activities                                     | <br>11                    | <br>55           |
| <br>Effect of foreign currency translation on cash                                | <br>6                     |                  |

|  |          |           |
|--|----------|-----------|
| Net increase in cash and cash equivalents        | 5,716    | 5,213     |
| Cash and cash equivalents at beginning of period | 44,034   | 51,399    |
| <br>   |          |           |
| Cash and cash equivalents at end of period       | \$49,750 | \$ 56,612 |
| <br>   |          |           |
| Supplemental Disclosure of Cash Flow Information |          |           |
| Cash paid for income taxes                       | \$ 77    | \$ 178    |

See accompanying notes.

6

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**Table of Contents**

**GLOBECOMM SYSTEMS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009  
(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, 2009 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 months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2010, 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, 2009 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 14, 2009.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Globecomm Network Services Corporation ( GNSC ), Globecomm Services Maryland ( GSM ), Cachendo LLC ( Cachendo ), B.V. Mach 6 ( Mach 6 ), Telaurus Communications LLC ( Telaurus ) and Melat Networks Inc. ( Melat ) (collectively, the Company ). All significant intercompany balances and transactions have been eliminated in consolidation.

*Accounting Estimates*

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

*Revenue Recognition*

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 ( SAB 104 ), Revenue Recognition, for its production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured, delivery has occurred and the contractual performance specifications have been met. The Company's standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than the Company's long-term complex production-type projects. Revenue is recognized on the Company's standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the 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 system, does not require complex software integration and interfacing and the Company has not experienced any difficulties installing such equipment. In addition, the customer or other third party vendors can install the system.

**Table of Contents**

The estimated relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, the Company will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues in the accompanying consolidated balance sheets.

The Company recognizes revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones in accordance with Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for its 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 managed network services and lifecycle support services for a broad variety of communications applications. 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.

*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.

*Costs from Services*

Costs from services relating to Internet-based services consist primarily of satellite space segment charges, Internet connectivity fees, voice termination costs and network operations expenses and labor for our professional engineering services. 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 twenty-four hour a day, seven-day a week basis, including personnel and related costs and depreciation.

*Research and Development*

Research and development expenditures are expensed as incurred.

*Stock-Based Compensation*

Stock compensation expense was approximately \$432,000 and \$881,000 for the three months ended September 30, 2009 and 2008, respectively. The expense in the three months ended September 30, 2008 includes approximately \$675,000 related to the accelerated vesting of the Company's former President's outstanding restricted stock awards due to his passing away on July 20, 2008. As of September 30, 2009, there was approximately \$274,000 of unrecognized compensation cost related to unvested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 2.5 years. As of September 30, 2009, there was approximately \$2,630,000 of unrecognized compensation cost related to unvested stock-based compensation related to restricted shares. The cost is expected to be recognized over a weighted-average period of 1.8 years.

**Table of Contents***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 net carrying value of goodwill was approximately \$25,613,000 at September 30, 2009 and June 30, 2009 which relates to the services reporting unit. The Company performs the goodwill impairment test annually in the fourth quarter. There have been no events in the three months ended September 30, 2009 that would indicate that goodwill and indefinite life intangible assets were impaired.

Intangibles subject to amortization consisted of the following:

|                               | <b>September<br/>30,<br/>2009</b> | <b>June 30,<br/>2009</b> | <b>Est. useful life</b> |
|-------------------------------|-----------------------------------|--------------------------|-------------------------|
|                               | <b>(In thousands)</b>             |                          |                         |
| Customer relationships        | \$ 10,574                         | \$ 10,574                | 8-18 years              |
| Software                      | 1,162                             | 1,162                    | 5 years                 |
| Contracts backlog             | 971                               | 971                      | 6- 8 months             |
| Covenant not to compete       | 125                               | 125                      | 3-4 years               |
| Trademark                     | 51                                | 51                       | 5 years                 |
|                               | 12,883                            | 12,883                   |                         |
| Less accumulated amortization | 2,297                             | 1,863                    |                         |
| Intangibles, net              | \$ 10,586                         | \$ 11,020                |                         |

Amortization expense of approximately \$434,000 and \$99,000 was included in general and administrative expenses in the three months ended September 30, 2009, and 2008, respectively.

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

|      |        |
|------|--------|
| 2010 | \$ 841 |
| 2011 | 1,148  |
| 2012 | 1,147  |
| 2013 | 1,132  |
| 2014 | 1,107  |

*Income Taxes**Deferred Tax Assets*

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

**Table of Contents**

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 September 30, 2009, the Company had a liability for unrecognized tax benefits of approximately \$106,000 which if recognized in the future, would favorably impact the Company's effective tax rate. 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. At September 30, 2009 and June 30, 2009, the Company had not accrued any amounts for the potential payment of penalties and interest.

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 2006 through 2008 tax years remain subject to examination. The Company files in numerous state jurisdictions with varying statutes of limitation.

*Comprehensive Income*

Comprehensive income for the three months ended September 30, 2009 of approximately \$1,255,000 includes a foreign currency translation gain of approximately \$14,000.

*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.

*Subsequent Events*

In the preparation of its consolidated financial statements, the Company considered subsequent events through November 9, 2009, which was the date the Company's consolidated financial statements were issued.

*Recent Accounting Pronouncements*

On July 1, 2009 the Company adopted the accounting pronouncement relating to business combinations, including assets acquired and liabilities assumed arising from contingencies. Changes for business combination transactions pursuant this pronouncement include, among others, expensing acquisition-related transaction costs as incurred, the recognition of contingent consideration arrangements at their acquisition date fair value and capitalization of in-process research and development assets acquired at their acquisition date fair value. The adoption of this pronouncement did not have a material impact on our financial position and results of operations in the three months ended September 30, 2009, but could have a material impact on our financial position and results of operations depending on the nature of any future acquisitions.

The Company adopted the accounting pronouncement regarding the general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued. This pronouncement was effective prospectively for interim and annual reporting periods ending after June 15, 2009.



**Table of Contents****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 months ended September 30, 2009 and 2008, excludes the effect of approximately 608,000 and 590,000 stock options and unvested restricted shares in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive.

**3. Inventories**

Inventories consist of the following:

|                                   | <b>September<br/>30,<br/>2009<br/>(Unaudited)</b> | <b>June 30,<br/>2009</b> |
|-----------------------------------|---|--------------------------|
|                                   | <b>(In thousands)</b>                             |                          |
| Raw materials and component parts | \$ 740  | \$ 797                   |
| Work-in-progress                  | 25,346  | 18,243                   |
|                                   | 26,086  | 19,040                   |
| Less progress payments            | 1,364   | 1,997                    |
|                                   | \$24,722  | \$17,043                 |

**4. Segment Information**

The Company operates through two business segments. Its infrastructure solutions segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems and networks. Its services segment, through GNCS, GSM, Cachendo, Mach 6, Telaurus and Melat, provides satellite communication services capabilities.

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

**Table of Contents****4. Segment Information (continued)**

The following is the Company's business segment information for the three months ended September 30, 2009 and 2008 and as of September 30, 2009 and June 30, 2009:

|  | <b>Three Months Ended</b>         |                                   |
|--|-----------------------------------|-----------------------------------|
|  | <b>September<br/>30,<br/>2009</b> | <b>September<br/>30,<br/>2008</b> |
|  | <b>(Unaudited)</b>                |                                   |
|  | <b>(In thousands)</b>             |                                   |
| Revenues:                                |                                   |                                   |
| Infrastructure solutions                 | \$ 19,674                         | \$ 23,576                         |
| Services                                 | 29,573                            | 19,021                            |
| Intercompany eliminations                | (1,571)                           | (242)                             |
| Total revenues                           | \$ 47,676                         | \$ 42,355                         |
| Income (loss) from operations:           |                                   |                                   |
| Infrastructure solutions                 | \$ (1,569)                        | \$ (1,638)                        |
| Services                                 | 3,436                             | 2,392                             |
| Interest income                          | 135                               | 264                               |
| Intercompany eliminations                | (56)                              | 11                                |
| Income before income taxes               | \$ 1,946                          | \$ 1,029                          |
| Depreciation and amortization:           |                                   |                                   |
| Infrastructure solutions                 | \$ 484                            | \$ 508                            |
| Services                                 | 1,303                             | 874                               |
| Intercompany eliminations                | (9)                               | (11)                              |
| Total depreciation and amortization      | \$ 1,778                          | \$ 1,371                          |
| Expenditures for long-lived assets:      |                                   |                                   |
| Infrastructure solutions                 | \$ 292                            | \$ 408                            |
| Services                                 | 3,290                             | 556                               |
| Total expenditures for long-lived assets | \$ 3,582                          | \$ 964                            |
|  | <b>September<br/>30,<br/>2009</b> | <b>June 30,<br/>2009</b>          |
|  | <b>(Unaudited)</b>                |                                   |
|  | <b>(In thousands)</b>             |                                   |
| Assets:                                  |                                   |                                   |
| Infrastructure solutions                 | \$201,463                         | \$191,677                         |

|                           |           |           |
|---------------------------|-----------|-----------|
| Services                  | 80,821    | 72,544    |
| Intercompany eliminations | (84,540)  | (72,682)  |
| Total assets              | \$197,744 | \$191,539 |

**5. Line of Credit**

On March 11, 2009, the Company entered into a committed secured credit facility with Citibank, N.A, which expires on March 9, 2010. The credit facility is comprised of a \$50 million borrowing base line of credit (the Line ) and a foreign exchange line in the amount of \$10 million. The Line includes the following sublimits: (a)

12

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**Table of Contents**

\$30 million available for standby letters of credit; (b) \$20 million available for commercial letters of credit; (c) a line for up to two term loans, each having a term of no more than five years, in the aggregate amount of up to \$25 million that can be used for acquisitions; and (d) \$7.5 million available for revolving credit borrowings. Advances under the Line bear interest at the prime rate or LIBOR plus applicable margin based on the Company's leverage ratio, at the discretion of the Company, and are collateralized by a first priority security interest on all of the personal property of the Company. At September 30, 2009 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, liquidity ratio, minimum cash balance, debt service ratio and minimum capital base, with which the Company was in compliance at September 30, 2009. As of September 30, 2009, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately \$9.3 million, which were applied against and reduced the amounts available under the credit facility.

**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, such as, among others, uncertain demand for our services and products due to economic and industry-specific conditions, the risks associated with operating in international markets and our dependence on a limited number of contracts for a high percentage of our revenues. These risks and others are more fully described in the "Risk Factors" section of this Quarterly Report and in our other filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. 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 government and government related entities ( "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 impact our military-related sector business.

The products and services we offer include: pre-engineered systems, systems design and integration services, access, hosted, and lifecycle support services. To provide these products and services, we engineer all the necessary satellite and terrestrial facilities as well as provide the integration services required to implement those facilities. We also operate and maintain 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 the government marketplace, these customers are communications service providers, commercial enterprises and media and content broadcasters.

Since our products and services are often sold into areas of the world which do not have fiber optic land-based networks, a substantial portion of our revenue is derived from, and is 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.

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 these customers are located in developing countries or otherwise subject to unusual risks.

**Table of Contents**

Revenues related to contracts for infrastructure solutions and services have been fixed-price contracts in a majority of cases. Profitability of such contracts is subject to inherent uncertainties as to the cost of performance. In addition to possible errors or omissions in making initial estimates, cost overruns may be incurred as a result of unforeseen obstacles, including both physical conditions and unexpected problems encountered in engineering design and testing. Since our business is frequently concentrated in a limited number of large contracts, a significant cost overrun on any contract could have a material adverse effect on our business, financial condition and results of operations.

Contract costs generally include purchased material, direct labor, overhead and other direct costs. Anticipated contract losses are recognized, 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 salaries. 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, administrative functions and 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:

***Revenue Recognition***

We recognize revenue in accordance with Staff Accounting Bulletin No. 104 ( SAB 104 ), Revenue Recognition, for our production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, 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 relative fair value of the installation services is determined by management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the fair value of installation, we will defer recognition of revenues, determined on a contract-by-contract basis equal to the fair value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues.

We recognize revenue using the percentage-of-completion method of accounting upon the achievement of certain contractual milestones for our non-standard, complex production-type contracts for the production of satellite

**Table of Contents**

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.

***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.

***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. 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 three months ended September 30, 2009 that resulted in any goodwill and other intangible assets impairment.

***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,

**Table of Contents**

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 September 30, 2009, we had a liability for unrecognized tax benefits of approximately \$106,000 which if recognized in the future, would favorably impact our effective tax rate. We record 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. At September 30, 2009 and June 30, 2009 we had not accrued any amounts for the potential payment of penalties and interest.

***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 September 30, 2009, there was approximately \$274,000 of unrecognized compensation cost related to unvested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 2.5 years. As of September 30, 2009, there was approximately \$2,630,000 of unrecognized compensation cost related to unvested stock-based compensation related to restricted shares. The cost is expected to be recognized over a weighted-average period of 1.8 years.

***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.

***Recent Accounting Pronouncements***

On July 1, 2009 we adopted the accounting pronouncement relating to business combinations, including assets acquired and liabilities assumed arising from contingencies. Changes for business combination transactions pursuant to this pronouncement include, among others, expensing acquisition-related transaction costs as incurred, the recognition of contingent consideration arrangements at their acquisition date fair value and capitalization of in-process research and development assets acquired at their acquisition date fair value. The adoption of this pronouncement did not have a material impact on our financial position and results of operations in the three months ended September 30, 2009, but could have a material impact on our financial position and results of operation depending on the nature of any future acquisitions.



**Table of Contents**

We adopted the accounting pronouncement regarding the general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued. This pronouncement was effective prospectively for interim and annual reporting periods ending after June 15, 2009.

**Results of Operations*****Three Months Ended September 30, 2009 and 2008***

Our consolidated results of operations for the three months ended September 30, 2009 include results of Mach 6 and Telaurus since these acquisitions took place on February 27, 2009 and May 29, 2009, respectively.

*Revenues from Infrastructure Solutions.* Revenues from infrastructure solutions decreased by \$4.5 million, or 19.0%, to \$19.1 million for the three months ended September 30, 2009 from \$23.5 million for the three months ended September 30, 2008. The decrease in revenues was primarily driven by a decline in bookings of contract orders due to the global economic slowdown, which resulted in government and commercial customers and prospects delaying or cancelling projects which affected, in particular, pre-engineered systems. Due to the current global economic conditions it is currently difficult to assess whether or not future bookings will meet or exceed levels experienced in the fiscal year ended June 30, 2009.

*Revenues from Services.* Revenues from services increased by \$9.8 million, or 52.0%, to \$28.6 million for the three months ended September 30, 2009 from \$18.8 million for the three months ended September 30, 2008. The increase in revenues was primarily due to an increase in access service offering primarily due to the government marketplace along with \$8.2 million of revenue from Mach 6 and Telaurus.

*Costs from Infrastructure Solutions.* Costs from infrastructure solutions decreased by \$4.5 million, or 22.2%, to \$15.8 million for the three months ended September 30, 2009 from \$20.3 million for the three months ended September 30, 2008. The gross margin from infrastructure solutions increased to 17.2% for the three months ended September 30, 2009 compared to 13.8% for the three months ended September 30, 2008. The increase in gross margin was mainly attributable to sales with two commercial customers with lower than normal margins in the three months ended September 30, 2008.

*Costs from Services.* Costs from services increased by \$6.4 million, or 45.0%, to \$20.6 million for the three months ended September 30, 2009 from \$14.2 million for the three months ended September 30, 2008. Gross margin for services increased to 28.0% for the three months ended September 30, 2009, compared to 24.5% for the three months ended September 30, 2008. The increase in the gross margin was primarily driven by an increase in revenue in the government marketplace, along with a large equipment shipment at a lower than normal margin in the three months ended September 30, 2008. The increase in gross margin in the services segment has been a key driver in the increase in 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.

*Selling and Marketing.* Selling and marketing expenses increased by \$0.1 million, or 2.9%, to \$3.2 million for the three months ended September 30, 2009 from \$3.1 million for the three months ended September 30, 2008. The increase was a result of marketing expenses of \$0.6 million incurred at Mach 6 and Telaurus, partially offset by a decrease in salary and salary-related expenses due to cost savings initiatives.

*Research and Development.* Research and development expenses increased by \$0.4 million, or 141.5%, to \$0.8 million for the three months ended September 30, 2009 from \$0.3 million for the three months ended September 30, 2008. The increase was principally due to costs associated with expanding X and Ka band product capabilities, along with research and development costs of \$0.2 million at Telaurus.

*General and Administrative.* General and administrative expenses increased by \$1.9 million, or 50.6%, to \$5.5 million for the three months ended September 30, 2009 from \$3.7 million for the three months ended September 30, 2008. The increase was a result of \$1.3 million of general and administrative expenses incurred at Mach 6 and Telaurus (inclusive of \$0.3 million of amortization of intangibles related to these acquisitions) an

**Table of Contents**

increase in the accrual for the Company's pay for performance plan based on current results of operations, and an increase in bad debt expense; partially offset by a decrease in stock compensation expense primarily due to inclusion in our results for the three months ended September 30, 2008 the accelerated vesting of the restricted stock of our former President, who passed away on July 20, 2008. This additional stock compensation expense in the three months ended September 30, 2008 was partially offset by life insurance proceeds received by the Company, included as a reduction in general and administrative expenses, and a reduction in the tax expense for the non-taxable insurance proceeds.

*Interest Income.* Interest income decreased by \$0.1 million, or 48.9%, to \$0.1 million for the three months ended September 30, 2009 from \$0.3 million for the three months ended September 30, 2008, as a result of a decrease in interest rates. Beginning in November 2008, in order to reduce our investment risk, we transferred our excess cash into money market funds with portfolios in treasury notes which earn lower rates than our previous investment vehicles. In August 2009, our excess cash was transferred out of money market funds with portfolios in treasury notes to an account with a financial institution bearing a higher interest rate.

*Provision for income taxes.* Provision for income taxes increased by \$0.5 million to \$0.7 million for the three months ended September 30, 2009 from \$0.2 million for the three months ended September 30, 2008, as a result of the increase in income before income taxes and an increase in our effective rate to 36% from 20%. The effective rate for the three months ended September 30, 2008 includes a discrete tax benefit associated with non-taxable life insurance proceeds due to the passing of our former President.

**Liquidity and Capital Resources**

At September 30, 2009, we had working capital of \$75.1 million, including cash and cash equivalents of \$49.8 million, net accounts receivable of \$37.9 million, inventories of \$24.7 million, prepaid expenses and other current assets of \$1.5 million, current deferred income taxes of \$1.1 million, offset by \$27.0 million in accounts payable, \$4.7 million in deferred revenues, \$4.2 million in accrued payroll and related fringe benefits, and \$4.0 million in accrued expenses and other current liabilities.

At June 30, 2009, we had working capital of \$74.6 million, including cash and cash equivalents of \$44.0 million, net accounts receivable of \$45.4 million, inventories of \$17.0 million, prepaid expenses and other current assets of \$2.3 million and deferred income taxes of \$1.1 million, offset by \$22.5 million in accounts payable, \$5.3 million in deferred revenue, \$4.3 million in accrued payroll and related fringe benefits and \$3.1 million in other accrued expenses.

Net cash provided by operating activities during the three months ended September 30, 2009 was \$9.3 million, which primarily related to a decrease in accounts receivable of \$7.2 million due to the timing of billings and collections from customers, an increase in accounts payable of \$4.5 million due to the increase in inventories and timing of payments to vendors, a non-cash item representing depreciation and amortization expense of \$1.8 million primarily related to depreciation expense related to the network operations center and satellite earth station equipment and amortization expense related to the acquisitions, and net income of \$1.2 million, partially offset by an increase in inventories of \$7.7 million due to timing of shipments and purchases of equipment for milestones to be reached in future periods.

Net cash provided by operating activities during the three months ended September 30, 2008 was \$6.1 million, which primarily related to a decrease in accounts receivable of \$17.4 million due to the timing of billings and collections from customers and a reduction in revenue in the three months ended September 30, 2008 as compared to the three months ended June 30, 2008, a non-cash item representing depreciation and amortization expense of \$1.4 million primarily related depreciation expense related to the network operations center and satellite earth station equipment, non cash stock compensation expense of \$0.9 million and net income of \$0.8 million, offset by a decrease in accounts payable of \$7.8 million relating to the reduction in revenue in the three months ended September 30, 2008 as compared to the three months ended June 30, 2008 and the timing of vendor payments, a decrease in deferred revenue of \$3.9 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts, and a decrease in accrued payroll and related fringe benefits of \$2.3 million primarily due to the payment in the three months ended September 30, 2008 of awards under the pay for performance plan with respect to the Company's fiscal year ended June 30, 2008.

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Net cash used in investing activities during the three months ended September 30, 2009 was \$3.6 million, which related to the purchase of equipment for the hosted cellular service offering.

Net cash used in investing activities during the three months ended September 30, 2008 was \$1.0 million, which related to the purchase of network operations center and teleport assets.

**Table of Contents**

Net cash provided by financing activities during the three months ended September 30, 2009 and 2008 of \$11,000 and \$55,000, respectively, related to proceeds from the exercise of stock options.

On March 11, 2009, we entered into a committed secured credit facility with Citibank, N.A, which expires on March 9, 2010. The credit facility is comprised of a \$50 million borrowing base line of credit (the Line ) and a foreign exchange line in the amount of \$10 million. The Line includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$20 million available for commercial letters of credit; (c) a line for up to two terms loans, each having a term of no more than five years, in the aggregate amount of up to \$25 million that can be used for acquisitions; and (d) \$7.5 million available for revolving credit borrowings. Advances under the Line bear interest at the prime rate or LIBOR plus applicable margin based on our leverage ratio, at our discretion, and are collateralized by a first priority security interest on all of personal property. At September 30, 2009 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 the leverage ratio, liquidity ratio, minimum cash balance, debt service ratio and minimum capital base, with which we were in compliance at September 30, 2009. As of September 30, 2009, no borrowings were outstanding under this credit facility, however, there were standby letters of credit of approximately \$9.3 million, which were applied against and reduced the amounts available under the credit facility.

We lease satellite space segment services and other equipment under various operating lease agreements, which expire in various years through the fiscal year ending June 30, 2015. Future minimum lease payments due on these leases through September 30, 2010 are approximately \$17.8 million.

At September 30, 2009, we had contractual obligations and other commercial commitments as follows (in thousands):

| <b>Contractual Obligations</b>     | <b>Total</b> | <b>Payments Due by Period</b> |                  |                  |                          |
|------------------------------------|--------------|-------------------------------|------------------|------------------|--------------------------|
|                                    |              | <b>Less than 1 year</b>       | <b>1-3 years</b> | <b>4-5 years</b> | <b>More than 5 years</b> |
|                                    |              |                               |                  |                  |                          |
| Operating leases                   | \$ 37,692    | \$ 17,819                     | \$ 13,955        | \$ 5,918         | \$                       |
| Total contractual cash obligations | \$ 37,692    | \$ 17,819                     | \$ 13,955        | \$ 5,918         | \$                       |

| <b>Other Commercial Commitments</b> | <b>Total Amounts Committed</b> | <b>Amount of Commitment Expiration Per Period</b> |                  |                  |                          |
|-------------------------------------|--------------------------------|---|------------------|------------------|--------------------------|
|                                     |                                | <b>Less than 1 year</b>                           | <b>1-3 years</b> | <b>4-5 years</b> | <b>More Than 5 years</b> |
|                                     |                                |   |                  |                  |                          |
| Standby letters of credit           | \$ 9,317                       | \$ 4,678  | \$ 4,163         | \$ 476           | \$                       |
| Total commercial commitments        | \$ 9,317                       | \$ 4,678  | \$ 4,163         | \$ 476           | \$                       |

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.



**Table of Contents**

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the infrastructure solutions and services 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 September 30, 2010. 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.

**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 operations of our foreign subsidiary, Mach 6, and certain purchases from foreign vendors. In the normal course of business, we assess these risks and have established policies and procedures to manage our exposure to fluctuations in foreign currency values.

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. Accordingly, we may utilize from time to time foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currency. At September 30, 2009, we had no significant outstanding foreign exchange contracts.

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. Under our current positions, we do not use interest rate derivative instruments to manage exposure to interest rate changes.

**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 September 30, 2009 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.

**Table of Contents**

**Part II Other Information**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

**Risks Related to Our Business**

***Reductions in telecommunications equipment and systems spending have negatively affected our revenues and profitability.***

For several years prior to 2008, the U.S. and global economies had been growing and our revenues and profits had increased as our customers increased their spending on telecommunications equipment and systems. However, recent adverse conditions as a consequence of the worldwide financial and economic crisis have negatively impacted the global economy and nearly all businesses, including ours, are facing uncertain economic environments. Our business has been negatively affected in the past by uncertain economic environments both in the overall market, and more specifically in the telecommunications sector. As a result of the current global economic conditions, our customers have reduced and may continue to reduce their budgets for spending on telecommunications equipment and systems. As a consequence, our current customers and other prospective customers may postpone, reduce or even forego the purchase of our products and systems, which could adversely affect our revenues and profitability. For the three months ended September 30, 2009 our infrastructure solutions segment in particular was impacted by these factors. It is currently difficult to assess whether or not future bookings will meet or exceed the levels experienced in the recent past.

***A limited number of customer contracts 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 would adversely affect our results of operations, business and financial condition.***

We rely on a small number of customer contracts for a large portion of our revenue. Specifically, we have agreements with five customers to provide equipment and services, from which we expect to generate a significant portion of our 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, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

***We derive a substantial portion of our revenues from the government marketplace, and a downturn in this marketplace would adversely affect us.***

In the three months ended September 30, 2009, we derived 64% of our consolidated revenues from the government marketplace. This business tends to have higher gross margins than other markets we serve. A future reduction in the proportion of our business from the government marketplace would negatively impact our 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 current government involvement in supporting various financial institutions and mounting government deficits will likely result 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.

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

**Table of Contents**

We market and sell a substantial portion of our products and services 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 Mach 6 and Telaurus acquisitions with a significant portion of the international revenue coming from developing countries, including countries in areas of conflict like 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 products and services to customers;

difficulties in collecting accounts receivable;

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 products and services across international borders;

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

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

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

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

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.

***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.

***Our service revenue has increased as a percentage of total revenue and if our service revenue decreases or margins decrease, our results of operations will be harmed.***

GNSS, GSM, Cachendo, Mach 6, and Telaurus' future revenues and results of operations are dependent on the development of the market for their current and future services. In the three months ended September 30, 2009, services revenues were 60% of total revenue, compared to 44% for the three months ended September 30, 2008. In fiscal 2009, services revenues increased to 48% of total revenues compared to 32% and





**Table of Contents**

24% in fiscal 2008 and 2007, respectively. 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.

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

GNSC'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. Similarly, GSM's revenues and results of operations are dependent on the infrastructure of the network operations center and teleport at our Laurel, Maryland facility. A catastrophic event to either of these facilities or to the infrastructure of the surrounding areas would result in significant delays in restoring a majority of the services capabilities. These capabilities permit us to offer an integrated suite of products and services and the incapacity of our communications infrastructure would 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 products and services on prices and terms favorable to us. Our primary competitors in the infrastructure solutions market generally fall into two groups: (1) system integrators, like Thales, Data Path, and SED Systems, and (2) equipment manufacturers who also provide integrated systems, like General Dynamics, SATCOM Technologies, Viasat, Alcatel and ND Satcom AG.

In the end-to-end satellite-based enterprise solutions and broadcast services markets, we compete with other satellite communication companies who provide similar services, like Ascent Media, Globecast, and Convergent Media Systems. In addition, in our services segment we may compete with other communications service providers like Segovia and satellite owners like SES Americom, Intelsat and Verizon. 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 products and services to address the needs of our current and prospective customers. The potential strategic relationships of existing and new competitors may rapidly acquire significant market share, which would harm our business and financial condition.

***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 recent acquisitions and intend to continue pursuing acquisitions of 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 or in-process research and development charges related to intangibles assets. Acquisitions involve numerous risks, including:

**Table of Contents**

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;

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

increased expenses associated with the acquisition; and

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

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

***If our products and services are not accepted in developing countries with emerging markets, our revenues will be impaired.***

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

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

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

the acceptance of our products and services by customers.

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

***Since sales of satellite communications equipment are dependent on the growth of communications networks, if market demand for these networks does not increase from recent depressed levels, our revenue and profitability are likely to decline.***

We derive, and expect to continue to derive, a significant amount of revenues from the sale of satellite infrastructure solutions. If the long-term growth in demand for communications networks does not increase from recent depressed levels, the demand for our infrastructure solutions may decline or grow more slowly than we expect. Further, increased competition among satellite ground segment systems and network manufacturers has increased pricing pressures. As a result, we may not be able to grow our business, our revenues may decline from current levels and our results of operations may be harmed. The demand for communications networks and the products used in these networks is affected by various factors, many of which are beyond our control. For example, the uncertain general economic conditions have affected the overall rate of capital spending by many of our customers. Also, many companies have found it difficult to raise capital to finish building their communications networks and, therefore, have placed fewer orders. Past economic slowdowns resulted in a softening of demand from our customers. We cannot predict the extent to which demand will increase, nor the timing of such demand.

**Table of Contents**

***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.

***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 products and services. Furthermore, our costs could increase significantly if we need to change vendors. If we do not receive timely deliveries of quality products and services, or if there are significant increases in the prices of these products or services, it could have a material adverse effect on our business, results of operations and financial condition.

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

Our network infrastructure may be vulnerable to computer viruses, break-ins, denial of service attacks and similar disruptive problems caused by our customers or other Internet users. Computer viruses, break-ins, denial of service attacks or other problems caused by third parties could lead to interruptions, delays or cessation in service to our customers. There currently is no existing technology that provides absolute security. 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.

**Table of Contents**

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

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

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

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

We currently have been granted 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 products and services can be sold, to provide meaningful protection or any commercial advantage to us. Also, our competitors may be able to design around our patents. The laws of some foreign countries in which our products and services are or may be developed, manufactured or sold may not protect our products and services or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products and services more likely.

We have filed applications for trademark registration of Globecomm and GSI, Telaurus and Mach 6 in the United States and various other countries, and have been granted registrations for some of these terms in the United States, Europe and Russia. We have 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.

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

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

From October 1, 2008 through September 30, 2009, our stock price ranged from a low of \$3.96 per share to a high of \$8.90 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:

**Table of Contents**

quarterly variations in operating results;

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

changes in financial estimates or recommendations by securities analysts;

general market conditions; or

domestic and international economic factors unrelated to our performance.

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

The stock markets in general and the markets for telecommunications stocks in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular 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, it may be difficult for an investor to find a purchaser for shares of our common stock without experiencing significant price volatility. 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.

***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.

**Table of Contents****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 and foreign 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 (the FCC Act), and the rules and regulations of the FCC, and a teleport in Amsterdam, The Netherlands, subject to the rules and regulations of the Dutch government. We cannot guarantee that the FCC or the Dutch government will grant renewals when our existing licenses expire, nor can there be any assurance that the FCC or the Dutch government will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our 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.

***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 products and services or that restrictions applicable thereto will not be unduly burdensome.

***Regulation of the Internet***

Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues including user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications. It is anticipated that a substantial portion of our Internet operations will be carried out in countries that may impose greater regulation of the content of information coming into the country than that which is generally applicable in the United States, 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 products and services, could increase our cost of doing business as a result of costs of litigation or increased product development costs, or could in some other manner have a material adverse effect on our business, financial condition and results of operations.





**Table of Contents**

***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 FCC Act and are 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.

***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.

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

None

**Item 3. Defaults Upon Senior Securities**

None

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

None

**Item 5. Other Information**

None

**Table of Contents**

**Item 6. Exhibits**

**Exhibit No.**

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

**Table of Contents**

**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: November 9, 2009

/s/ DAVID E. HERSHBERG  
David E. Hershberg  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 9, 2009

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

**Table of Contents**

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