

GLOBECOMM SYSTEMS INC  
Form 10-K  
September 13, 2011

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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2011**

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

**11-3225567**  
(I.R.S. Employer  
Identification No.)  
**11788**  
(Zip Code)

**Registrant's telephone number, including area code: (631) 231-9800  
Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.001 Par Value	NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Act: None  
(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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

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

Based on the closing sale price on the Nasdaq Global Market on December 31, 2010, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock, \$0.001 par value per share (the "Common Stock") held by non-affiliates of the registrant on such date was approximately \$211.8 million. For purposes of this calculation, only executives and directors are deemed to be affiliates of the registrant.

As of September 9, 2011, there were 22,920,703 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The Proxy Statement of Globecomm Systems Inc. relative to the 2011 Annual Meeting of Stockholders to be held on November 17, 2011, is incorporated by reference into Part III of this Annual Report on Form 10-K.

---

## PART I

### Item 1. Business

#### Overview

Globecomm Systems Inc. ( we , our , us , the Company or Globecomm ) is a leading global provider of satellite-based network solutions. Employing our expertise in emerging communication technologies we are able to offer a comprehensive suite of system integration, system products, and network services enabling a complete end-to-end solution for our customers. We believe our integrated approach of in-house design and engineering expertise combined with a world-class global network and our 24 by 7 ( 24/7 ) network operating centers provide us a unique competitive advantage. We are now taking this value proposition to selective vertical markets, including government, wireless, media, enterprise and maritime.

As a network solution provider we leverage our global network to provide customers managed access services to the United States Internet backbone, video content, the public switched telephone network or their corporate headquarters or government offices. We currently have customers for which we are providing these services in the United States, Europe, South America, Africa, the Middle East and Asia.

Globally, communications networks are moving rapidly toward Internet protocol-based ( IP ) networks and services based on the lower cost of implementation and the flexibility these networks offer. Satellite-based communications complement this trend as many of the regions in the world lack the next generation terrestrial networks required to accommodate the rapid and reliable transmission of the vast amounts of information underlying the growth in traffic. Even in a well connected area of the globe, satellite communications offer a diverse network path in support of disaster recovery and network augmentation.

We were incorporated in Delaware in August 1994. Our Globecomm Systems division provides our infrastructure solutions. Our services are principally provided by our wholly-owned subsidiaries, Globecomm Network Services Corp. ( GNSC ), a Delaware corporation, and Globecomm Services Maryland LLC ( GSM ), a Delaware limited liability company. In July 2008, we formed Cachendo LLC, ( Cachendo ) a wholly-owned Delaware limited liability company, to operate our professional engineering services business. In fiscal 2009, we added two companies to our services business through the acquisition of B.V. Mach 6 ( Mach 6 ), a Netherlands company headquartered near Amsterdam, and Telaurus Communications LLC ( Telaurus ), a Delaware limited liability company, based in New Jersey. In fiscal 2010, we added two companies to our services business through the acquisition of Carrier to Carrier Telecom B.V. ( C2C ) a Netherlands company headquartered near Amsterdam and Evocomm Communications Limited ( Evocomm ), a British Virgin Islands company. In fiscal 2011, we further added to our services business through the acquisition of ComSource Inc. ( ComSource ), a Maryland corporation, based in Maryland.

#### Growth Strategy

Our growth strategy continues to focus on the development of recurring revenue streams by leveraging our engineering expertise and our global network to provide IP networking solutions for mission critical applications. Our strong service platform allows us to continue to develop additional value-added, application-based solutions for our core customers. We will continue to focus on maturing this global platform as we integrate our acquisitions and expand the reach of our managed network solution offerings.

We have supplemented our organic growth through acquisitions. With the recent completion of the ComSource acquisition we have continued our expansion outside satellite-centric based applications, enhanced our position within

the wireless market and positioned ourselves to penetrate new markets. We plan to continue to employ a selective and disciplined approach when evaluating acquisition opportunities.

We focus our efforts toward increasing market share through vertical markets with the creation of value-added service solutions in emerging market niches. This has been supplemented by an ongoing effort

to identify and develop select research and development projects and network components into marketable shared-service hosted platforms. With the natural cycle of technology advancement and the continued convergence of communications applications to Internet protocol, we remain excited about the new addressable market opportunities.

### **Solution Offerings**

We provide our communication solutions through two business segments; services and infrastructure. Our services segment is supported primarily by GNNSC, GSM, Cachendo, Melat, Mach 6, Telaurus, C2C, Evocomm and ComSource. These companies focus primarily on providing communication services including Managed Network Services, Professional Services and Lifecycle Support Services. Our infrastructure segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems and networks, which includes both our pre-engineered products and our custom systems design and integration product lines.

### ***Services Solution Overview***

We work to continually evolve our service platforms to meet the communication needs of our customers. Our customer base has grown as our service and customer support have proven the value of outsourced services. Our strategy includes offering flexible service-based solutions with fixed monthly pricing in order to make it easy for our customers to support an outsourcing decision.

Our global network is comprised of three teleport or data center facilities; our Kenneth A. Miller International Teleport, located in Hauppauge, New York, our GSM facility located in Laurel, Maryland and our C2C facility located in the Netherlands. These facilities are interconnected via terrestrial transmission and are used to transport signals to serve customers in Latin America, the United States, Canada, Europe, the Middle East, Africa and Asia. Our facilities are designed to meet stringent requirements for high-speed data communications and leverage redundant critical systems and uninterruptible power supplies with back-up power generation to ensure high reliability and availability.

To supplement our global network, we also lease facility services in Los Angeles, Hong Kong, the United Kingdom, the Netherlands and Poland, as well as other locations, to enable seamless access and global connectivity for our customers. This is further enabled by leased satellite capacity and by high-capacity fiber connections between facilities and public Point of Presence (POP) locations.

We have built and staff a centralized global network operation center, or NOC, at our Hauppauge, New York facility. We also have regional NOCs in Maryland and the Netherlands. The NOCs operate 24/7 to monitor customer networks, provide help desk services, respond to customer inquiries and initiate new services. The NOCs provide technology specific engineers to assist our customers with troubleshooting and problem resolution. We utilize our internally developed AxxSys Orion network management systems to monitor and control satellite communication equipment and satellite terminal networks at our NOCs. At our GSM facility in Laurel, Maryland and our Mach 6 and C2C facilities in the Netherlands, we have regional data centers that provide 24/7 localized technical support to our customers. We also leverage these facilities to dispatch technical personnel to support our Lifecycle Support Services offering.

Our service-based offerings are continuously being fine-tuned, partly through customer-funded programs and partly through internally funded programs. Our goal is to create high-value, customized application-based solutions for our customers, which are based on standardized building blocks, or service lines. The following service lines are the focal point of our evolving strategy.

### ***Managed Network Services Line***

Our core service line, Managed Network Services, incorporates our ability to provide product offerings leveraging our engineering capability and our global network allowing customers the opportunity and flexibility to outsource some or all of their communication needs. Two key components of this service line is our ability to provide global data, voice and video transport services which we call our Access product line

and an ability to provide back office applications services, which we call our Hosted application product line.

**Access Services** is defined by our ability to support the transport of video, voice and data services globally. We further break down the Access service line into specific product offerings. The Access business is the backbone our services offering and a key driver of our overall revenue.

**Access Plus** utilizes a combination of terrestrial connectivity, satellite bandwidth and our teleports, along with a variety of remote very small aperture terminal, or VSATs, or a network of VSATs, to provide end-to-end connectivity. Our VSAT hubs, at our teleports, coupled with the extension and expansion of our terrestrial backbone network to these locations provide us with global VSAT coverage. This coverage and flexibility provide a wide range of services encompassing fundamental satellite technologies, including:

Single Channel per Carrier (SCPC)

Multiple Channel per Carrier (MCPC)

Time Division Multiple Access (iDirect)

Deterministic SCPC (Vipersat)

Broadband Global Area Network (BGAN)

**Access Video Backhaul** based upon Access Plus, is specifically developed for video-centric delivery. The primary technology enabling this service is the Digital Video Broadcast standard (DVB/DVB-S2). Our Access Video Backhaul product leverages the core service elements with a greater concentration on maximizing video throughput while ensuring the highest service availability into potentially residential-grade reception systems or to cable head ends. The current evolution of IP-centric video delivery will continue to shape new technologies in this arena. The current adoption of H.264 and MPEG-4 technologies has been slow, though they continue to gain ground. As the industry evolves, we will continue to position the Access Video Backhaul product within the market to offer the greatest amount of value to the end user. Specifically, we look to retain the current platform in place and continue to offer services with only gradual adaptation of new technology to ensure a broad market access until end-users have widely adopted the new technology.

**Access Voice Termination** is also based upon the Access Plus product and is specifically designed for voice trunking services. We are licensed by the FCC and we provide high quality, toll-based termination of voice calls while leveraging high compression and highly reliable connectivity between the Globecomm network and the voice origination network. This differentiates us from many low cost providers. In addition, we often take advantage of utilizing pre-existing links, which allows us to position the Access Voice Termination product as extremely competitive alongside high value voice over IP providers while delivering a superior service in terms of features (caller ID, signaling pass through, etc.) and overall quality.

**Access Bandwidth** is one of the largest elements of our cost of doing business, but it is also an asset which we utilize as a source of revenue. We lease over one GHz of total satellite bandwidth across the globe for different frequencies, coverage areas and polarizations. Given our increased demand, we are able to leverage our increased buying power in the satellite provider market, and are often capable of procuring bandwidth at very competitive rates. Accordingly, we leverage our current inventory of capacity or resell our provider's capacity. We continually attempt to optimize and consolidate bandwidth to ensure attractive margins while being cost-competitive compared to our competitors and competing mediums. This service is a derivative of our base Access line and affords us the ability to provide long-term satellite bandwidth resale opportunities with minimal overall risk.

*Access Maritime* is technically similar to our Access Plus line but is customized by Telaurus and Evosat SA Proprietary Ltd ( Evosat ) for the maritime industry, and supports traditional narrowband services as well as broadband IP based services. This product provides vessel owners and operators with a diverse range of services, including; e-mail, Internet access, remote network management, on



board Wi-Fi, virtual private network and voice over IP applications. Access Maritime utilizes all available technologies from Inmarsat, Iridium, Thuraya, and traditional VSAT providers to provide a full feature set of solutions to the maritime market. We will look to capitalize on the convergence of these various technologies in order to provide a single ubiquitous service to the maritime market that will help drive higher IP throughput at a lower cost to the vessel operator.

**Access Hardware** products range from VSAT terminals to IP-centric routing hardware and co-location hardware. The ability to offer a complete solution through the Access Hardware product line enables the delivery of our services on a global level. Frequently, our Access Hardware products are shipped, installed and maintained globally. Our Access Hardware product line provides us with the opportunity to offer lifecycle support services for this equipment.

**AccessX<sup>®</sup>**, our new X-Band based service is also technically similar to our Access Plus line, though customized for the military market, and operates on commercial X-Band frequencies. Only recently have commercial X-Band frequencies been made available for use. We can offer X-Band services through our partnership with our Poland teleport operator. We have successfully tested and operated on XTAR and Paradigm X-Band fleets into our TomCat<sup>®</sup> product. We are one of the only providers that manufactures microsat terminals and can provide the service into these terminals via our Access X<sup>®</sup> service offering.

**Hosted services** is based on creating scalable application-based solution offerings which provide cost-effective outsource capabilities to niche market segments. Our hosted products are currently positioned to address the needs of the enterprise, media, maritime and wireless vertical markets.

**Hosted Cellular** allows our customers the ability to outsource their switching services through a full-featured hosted mobile switching center for GSM/UMTS and CDMA/EVDO technologies. The target customer base includes hundreds of small to mid-sized cellular operators in North America, emerging cellular operators globally and large international operators extending their coverage and/or meeting Universal Services Obligations. This particular product is driven by leveraging our core service elements, including:

- Our GSM-UMTS/HSPA Switching/Core Platform

- Our CDMA-EVDO Switching/Core Platform

- Domestic and international connectivity for voice, data and internet

- Our network of Tier 1 IP terrestrial providers at our teleport locations and the interconnectivity between our teleport facilities

- Our large pool of diverse satellite bandwidth coverage, frequencies and providers

- Our centralized global NOC

The hosted value proposition is focused on creating alternative, cost-effective solutions to establish or grow cellular networks while delivering a compelling return on investment with lower capital requirements and operating expenses. In some cases, the hosted model represents the only viable financial model. The solution provides a cost-effective solution to introduce new services and technologies to an existing network (2G to 3G migration, SMS, MMS, etc.) and an affordable solution to deliver cellular services to unserved areas while meeting government-imposed Universal Services Obligations. Lastly, the solution provides an accepted and trusted source where large, established cellular operators are comfortable that its roaming customers will interoperate with our hosted customers and are paid under their respective roaming agreements.

We house our mobile switching center in our Kenneth A. Miller International Teleport. The switching systems are part of a complete central office facility that provides all the systems and services required to support a cellular operator. Our satellite solution incorporates mobile signaling but keeps voice traffic off the satellite, which minimizes operational cost, optimizes quality of service for local calling

and allows remote geographic areas to join the GSM network with a small investment in base stations and VSATs.

Our Ericsson GSM/UMTS Switching Core ( Core ) positions us to expand this business. The Core will provide a full featured hosted GSM/UMTS (2G/3G) platform to scale the hosted business in North America and internationally with the ability to migrate to LTE (4G) in the future.

**Hosted Video** minimizes customer capital and operating expenditures and is positioned to address the needs of the enterprise and media market verticals. A key differentiator for us in providing high quality networked service is the ability to leverage our facility in Hauppauge, New York, allowing for outstanding satellite and terrestrial connectivity. This product includes both the hardware for hosting the services and the software platforms for customers to securely publish, process and distribute their content. This solution also allows viewers to interact with the content and provides stakeholders with valuable viewership reporting. The capabilities for our Hosted Video product include:

Publishing platform for hosting of Video On Demand content

Media processing infrastructure for the transcoding of live and on-demand content for viewing across hybrid networks and for viewing on televisions, computers and mobile devices

Security platforms to ensure secure content delivery and digital rights management across diverse networks

Streaming media platform for delivery across hybrid network topologies

Interactive platform allowing viewers to interact with live presenters and on-demand content

Administrative platform providing customers with back office control and reporting

**Tempo**<sup>sm</sup> is a hosted terrestrial enterprise media platform that provides enterprises with a single platform to deliver interactive employee communications to a global audience. This product provides a secure platform to publish content, conduct interactive live events, and manage each viewer's access to programming through the PC, TV, and the mobile handheld world. Tempo <sup>sm</sup> advanced technology operates in a complete browser environment without the need for any additional plugins, applications, or programs to be installed on any device, a true browser-based service. In addition, Tempo<sup>sm</sup> offers interactive, high quality video broadcasts with integrated polling and chat features, and captures meaningful analytics on viewing behavior and testing results to improve effectiveness of enterprise communications.

### **Professional Services Line**

Our professional services line is primarily provided by Cachendo and ComSource. These companies act as trusted advisors to our government and commercial clients by providing end-to-end technology solutions. We provide these services on either a stand-alone basis, or bundled with other service lines or infrastructure solutions.

**Advisory** solutions provide engineering expertise for executive level consulting, IT strategic alignment and policy development and enterprise architecture. This service centers on providing the necessary advice to clients on the acquisition and utilization of IT and on business strategy, security, modeling, engineering, operations and change management.

**Consulting** solutions provide engineering services for customers who need our engineering specialists and program managers to complement their internal staff in systems design and testing, security engineering and integration services.



## **Lifecycle Support Service Line**

Our Lifecycle Support Service line is an all encompassing service that supports Access and Hosted products across the globe. These services typically include installation, network monitoring, help desk, maintenance and professional engineering services. We are able to offer these lifecycle support products by leveraging our facilities infrastructure, including our teleports, our NOCs and our data centers, as well as our personnel and network of skilled technicians. We have government cleared personnel as well as commercial personnel across the globe supporting our Lifecycle Support Services today. In addition, we have global maintenance partners that provide us access to skilled technicians worldwide, which allow us to quickly expand and contract our workforce globally. We provide the following products on either a stand-alone basis, or bundled with other service lines or infrastructure solutions.

**Network Monitoring and Help Desk** solutions provide 24/7 monitoring of satellite and terrestrial network systems and networks. Status and alarm monitoring coupled with our help desk services provide our customers with the ability to outsource monitoring of their networks. We provide customers with network troubleshooting and problem resolution support with escalation to technical resources personnel to address problems requiring detailed technical knowledge of equipment, systems and/or networking. We utilize a remedy-based trouble ticket system to track problems through conclusion. Customized reports are issued by our help desk to meet our customers requirements.

**Installation and Maintenance** solutions provide installation and maintenance services of satellite and terrestrial infrastructure at customer locations anywhere in the world. We have an established worldwide network of field technicians, consisting of both employees and contractors, to provide on-site services for customer networks. These technicians enable us to provide cost-effective, quick-response services for installation and required maintenance.

Our Lifecycle Support products are composed of four distinct phases: design, installation, maintenance, and customer service. This approach aligns business and technical requirements at every phase.

**Design** During this phase, we work with our customers to develop a comprehensive, detailed design that meets their current business and technical requirements and incorporates specifications to support availability, reliability, security, scalability and performance. Custom solutions are created to meet the customers unique requirements to enable integration with their existing network infrastructure. A variety of plans are developed during the design phase to guide activities such as configuring and testing connectivity, deploying and commissioning the proposed system, migrating network services, demonstrating network functionality and validating network operation.

**Installation** Our global network of field technicians provides on-site, cost-effective, quick-response services for installation and required maintenance. Technicians are certified based on their skills. We have amassed a database of technicians who support network operations ranging from a simple VSAT to a complex hybrid network with IP networking responsibility across the globe.

**Maintenance** Our full-service maintenance package provides customers with complete coverage in an economical, convenient and timely manner, all for a fixed monthly fee per location. With the full-service maintenance approach, we assume all responsibility for the network, including stocking a spares pool and restoring downlink systems to working order. Our maintenance service process involves remote troubleshooting at our NOC, followed up by an overnight shipment of a replacement item to the site in question. The field installation crew would also be dispatched and arrive on location at the time when the spare item has been received.

**Customer Service** Lifecycle Support Services would not be complete without customer care and improvement. Customer service is an integral part of our general business model, though it is most visible in our Lifecycle Support Service. From the point of view of the engineering effort in the overall sales process, customer service plays an important role in our ability to generate future business.



## **Infrastructure Solutions Overview**

Our infrastructure solutions consist of the design, engineering and installation of ground segment systems and networks, which are deployed in communications and media delivery networks for the government, media, wireless and enterprise verticals. We combine our expert engineering and design capabilities with state-of-the-art technologies and products to provide solutions for building and maintaining satellite earth stations, uplink centers, media broadcast centers and IP communication networks. In the case of complex IP-based networks, our infrastructure solutions support a wide range of network applications and facilitate quadruple play services, comprised of video, data, voice and wireless communications.

We offer complete turn-key solutions providing system architecture and design, equipment rack and cable design and integration, site layout and design, all required civil works, power systems and installation and commissioning. Our experienced team offers all levels of training, staff augmentation and comprehensive lifecycle support.

### ***Pre-Engineered Products***

A key component of our infrastructure solutions is our product line of pre-engineered fixed and mobile/transportable satellite terminals and software-based network management systems, which are marketed under the Summit<sup>™</sup>, Explorer<sup>™</sup> and AxxSys<sup>®</sup> Orion brands. These product solutions are designed to address the government and commercial marketplace. Summit fixed satellite terminals have antenna apertures ranging from sub-meter to 21 meters in diameter using pre-engineered building blocks that assure high reliability and rapid response. Explorer mobile/transportable satellite terminals have antenna apertures ranging from sub-meter to four meters in diameter using highly integrated electronics and mechanical packaging techniques in order to provide ease of transport, light weight, small in size at a low cost. The AxxSys network management systems provide the capability to efficiently and securely manage, monitor and control small to large scale networks. A brief description of each product line is provided below:

#### **Summit Product Line Fixed Satellite Terminals**

Summit fixed earth station antennas come in configurations ranging from sub-meter up to 18-meter, customized for each installation from a field-proven set of blocks that provides high reliability satcom and fast turn-up at a very competitive price. Summit earth station antennas include all satcom electronics (L through Ka-band and all intermediate frequencies) needed to meet the customer's requirements for transmit, receive and interface to terrestrial networks, either integrated into the antenna or within a separate shelter or building. With all products we include complete system documentation along with our commitment to provision into service.

#### **Explorer Product Line Transportable Satellite Terminals**

Explorer satellite terminals are custom-configured for each customer's requirements based on pre-engineered building block components with proven mission critical service in the field. The result is a mix of high performance at an affordable cost. The product has integrated electronics for L, C, X, Ku and Ka bands which are suited for a wide range of military, institutional, news gathering, enterprise, disaster recovery and other applications. This product is available in sizes ranging from sub-meter up to four meters. Depending on the requirements, they can be configured as vehicle-mounted, trailer-mounted, transportable or fly-away terminals.

These products provide cost-effective, two-way communications in locations where traditional communication infrastructure is inadequate or nonexistent.

With the launch of the new Wide Global Satellite, or WGS, and XTAR satellites, we are focusing efforts on upgrading the existing auto-acquisition products for both X and Ka band. Recently, we formally launched the Auto-Explorer<sup>™</sup> 1.2 Meter Multi Band Lightweight Transport Terminal, which enables quick



and simple frequency conversion in the field from X to Ku to Ka satellite bands. The Explorer product line includes a range of terminals highlighted below:

**TomCat™ X Band** is a light-weight, man-transportable X band satellite communications system that sets-up and can be operational within minutes. The TomCat™ weighs just 35 pounds and can reach downlink capacity of up to 3Mbps and uplink capacity of 1.5Mbps. The terminal was designed to address the growing use of the U.S. military's new WGS system for use in tactical environments and other rapid response applications.

**Auto-Explorer™ 0.77/1.0/1.2 Meter Ku Band** terminals were designed for ease of operation by non-satellite personnel by incorporating automatic satellite acquisition technology. These satellite terminals include an integrated electronics package designed to incorporate the radio frequency, monitor and control and satellite modem components into an outdoor mounted package.

**Auto-Explorer™ 1.2 Meter Ka Band** is a self-contained, portable, auto-acquisition terminal for Ka band satcom applications, specifically tailored for the government's WGS constellation of satellites.

**Auto-Explorer™ 1.2 Meter X Band** is an auto-aligning flyaway that brings the benefits of a self-contained, portable, auto-acquisition satellite terminal to military and government users accessing X band satellites.

**Auto-Explorer™ 1.2 Meter Multi Band Lightweight Transport (LT)** terminal utilizes integrated carbon fiber technology and reduced weight component, making it a lightweight alternative to the existing Auto-Explorer 1.2 Meter terminals. The LT is fully IATA compliant for checked airline baggage. It offers a three transport case solution -, with each case weighing less than 70 pounds. The versatile, auto-aligning VSAT antenna uses band-specific feed cartridges with integrated RF electronics to enable quick and simple frequency conversion in the field from X to Ku to Ka satellite bands.

**Explorer TES** is a trailer mounted transportable earth station antenna that serves as a primary earth station or remote hub for the most demanding applications.

**GlobalStorm 2400/3700** is a trailer based earth station antenna system that is utilized for field communications, featuring 2.4 meter and 3.7 meter antennas which are large enough for difficult links.

**Explorer Pallet** is a vehicle-mounted transportable satellite communication pallet antenna that provides single or multi-band terminals for operation on X band military satellites as well as C, Ku and Ka band commercial satellites.

### **AxxSys® Network Management System**

Our pre-engineered products also include a line of AxxSys network management systems designed for management and control of satellite-terrestrial networks and include flexible interface devices that can be configured to communicate with satellite communications equipment and networking equipment from various manufacturers. The following details our products in this category:

**AxxSys® Network Management Systems** are computer-based network management systems that monitor and control satellite communication equipment and satellite terminal networks. AxxSys-based network management systems provide status reporting locally or remotely and provide the ability to manage distributed satellite communications networks on a global basis. Our current version AxxSys Orion monitors and controls all of the terrestrial elements of a satellite communications network. This includes the ability to manage other network elements, such as routers, microwave, fiber and wireless subsystems. Deployed over an industry-standard IP network, it is capable of monitoring and controlling from dozens to thousands of devices. Network management systems are key to simplifying operations

and maintenance of satellite-based networks and, therefore, add value to the systems and networks we integrate.

*SpyGlass Carrier Monitoring Systems*<sup>®</sup> are computer-based carrier monitoring tools for service providers who need to monitor and manage their transmissions to ensure service reliability and availability. Our SpyGlass<sup>®</sup> family of carrier monitoring tools integrates with the AxxSys network management system to provide ease of operation.

### **Systems Design and Integration Product**

We design, integrate, install, test and commission complex communication and media networks solutions to meet the needs of our customers. Our custom systems design and integration services are largely focused on requirements for media broadcast and distribution solutions, satellite earth stations, uplink centers, broadcast centers and next generation IP-based networks. This part of our business is based on our core engineering expertise in satellite earth stations and network design, media-broadcast engineering, IP network engineering and network management system design.

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

An illustrative example of our system design and integration solution product is our current contract with a major leading broadband satellite service company to develop and deploy advanced satellite earth station technology, under our Summit Product Line of Fixed Satellite Terminals, to support the ground segment of the next generation Ka band satellite.

The next generation of Ka Band satellites, with planned launches by several major satellite services companies beginning in early 2012, will transform satellite based broadband service capability. These new satellites are designed to support over 100 Gbps of throughput, the equivalent of 80 times the capacity of existing Ku Band satellites and over ten times the capacity of the current generation of Ka Band satellites. This new capability will compete favorably with terrestrial based broadband services for both commercial and government customers and create new opportunities for broadband rural and maritime coverage.

Under the current contract, we are developing and deploying multiple state-of-the-art Ka Band earth stations within the United States. Employing these earth stations will enable our customer to deliver very high-speed communications services to potentially 1.5 million or more customer terminals operating over the next generation satellite. The turnkey contract scope includes advanced monitoring and control software for all subsystems using our AxxSys<sup>®</sup> Network Management System, allowing for remote monitoring and control from distant operational centers. The contract also provides for extended Lifecycle Support Services.

As a leading global provider of Satellite Ground Segment Solutions, we continue to invest in expanding our Summit Product Line of Fixed Satellite Terminals, and our Explorer Product Line of Transportable Satellite Terminals to support the emerging Ka Band service capabilities for both the commercial and government markets.

### **Sales and Marketing**

We continually evaluate our sales and marketing efforts as we expand our product and service offerings. We approach the marketplace from both a market and a product perspective. We market our products and services to a diverse group of market verticals that include government, wireless, media, enterprise and maritime. We have structured our

sales and marketing approach to respond effectively to the opportunities in these markets.

Our corporate sales offices sell and market our products and services in the United States and internationally in specific vertical markets within the government and commercial markets. Our specific

government vertical markets currently consist of Afghanistan, the United States Department of Defense, domestic and international intelligence agencies and civilian and diplomatic markets. The commercial sales offices focus mainly on media/broadcast, wireless/cellular service providers, enterprise and maritime customers.

One of our goals is to brand the Globecomm name as an end-to-end managed network service provider. As we continue to expand our reach into new markets, we must expand our name brand recognition to these markets as well. This will include updating marketing material which illustrates the synergy in the integration of all entities. This material is aimed both at potential customers and helping support the effort of continued training of the personnel in our global offices. Ensuring that each person understands the breadth of our capabilities is vital to ensuring that we maximize the potential business from each of our existing and new customers.

Our regional business teams sell and market our products and services in concert with the corporate sales offices. Business teams are located in New York, the GSM, Cachendo and ComSource teams are located in Maryland, the Mach 6 and C2C teams are located in the Netherlands, the Telaurus team is located in New Jersey and the Evosat team is located in South Africa. The teams focus on targeted trade shows, demos and consultants teamed with company-wide events and marketing. We believe that this focused effort, along with the development of the corporate sales offices to proactively market our offerings to specific market segments, will lead to increased market share across all business teams.

These regional business teams are responsible for orders in the regions and/or markets to which they are assigned, as well as for the delivery of our products and services and for account management of our existing customers. Currently, we have regional business teams responsible for the Americas, Asia Pacific and Eastern Atlantic (Africa, the Middle East and Europe) regions. We also have a business team dedicated to the government marketplace, and a GSM service team which is focused largely on the U.S. government marketplace. Furthermore, the Mach6 and C2C business teams provide services and infrastructure to governments and organizations internationally while our Evosat business unit provides connectivity and products to Africa.

In addition, we have expert teams who are focused on leveraging our know-how in IP networking, broadcast technology, pre-engineered systems, network management systems and network services to provide added value to our products, services and application-based solutions. The strength of our expert teams allows us to continue our Annual Technology Forum.

The regional business and technology focused expert teams work together with the corporate sales offices to identify, develop and maintain customer relationships through local sales representatives, sales executives and account managers. Together, they develop close and continuing relationships with our customers. Our local sales representatives provide a local presence in their regions and identify prospective customers for our sales executives. Our account managers may also function as project engineers for network integration and service initiation programs for their accounts. We believe this account management focus provides continuity and loyalty between our customers and us. We also believe that our approach fosters long-term relationships that lead to follow-on work and referrals to new customers. These accounts also provide us with a market for the new products and services that we develop. In addition, we obtain sales leads through referrals from industry suppliers.

We use direct mailings, print advertising and social media to targeted markets and trade publications to enhance awareness and acquire leads for our direct and indirect sales teams. We create brand awareness by participating in industry trade shows sponsored by organizations like the International Telecommunications Union, the National Association of Broadcasters, Armed Forces Communications and Electronics Association, Communication Media Management Association and other industry associations. Globecomm plans to participate in multiple corporate sponsored tradeshows over the next year, including SATCON and SATELLITE 2012 in the satellite communications industry; IBC and NAB for the media vertical, several government tradeshows including MILCOM and

LANDWARNET, wireless shows including CTIA, CANSO and RCA, enterprise shows including Streaming Media East and West and

maritime shows including Posidonia and SMM. We also provide marketing information on our website and conduct joint marketing programs with sales representatives in various regions to reach new customers.

### **Competition**

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

In the end-to-end satellite-based enterprise solutions and broadcast services markets, we compete with other satellite communication companies who provide similar services, such as Ascent Media, Globecast and Convergent Media Systems. In addition, in managed network services we may compete with other communications services providers such as CapRock and Segovia, and satellite owners like SES Americom and Intelsat. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services.

In the satellite infrastructure solutions market, we believe that our ability to compete successfully is based primarily on our reputation and the ability to provide a solution that meets the customer's requirements, including competitive pricing, performance, on-time delivery, reliability and customer support.

Our primary competitors in the infrastructure solutions market generally fall into two groups: (1) system integrators such as Thales, Data Path and SED Systems and (2) equipment manufacturers who also provide integrated systems, such as General Dynamics, SATCOM Technologies, ViaSat Inc., Alcatel and ND Satcom AG.

Current and potential participants in the markets in which we compete have established or may establish cooperative relationships among themselves or with third parties. These cooperative relationships may increase the ability of their products and services to address the needs of our current and prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge that will enable them to acquire significant market share rapidly. We believe that increased competition is likely to result in price reductions, reduced gross profit margins and loss of market share, any of which would have a material adverse effect on our business, results of operations and financial condition.

### **Acquisitions**

On April 8, 2011 we acquired ComSource. Pursuant to the acquisition agreement, a newly-formed subsidiary of the Company merged with and into ComSource in exchange for an initial cash purchase price of \$19.9 million, funded through \$1.9 million of existing cash and \$18.0 million through an acquisition loan (the ComSource Acquisition Loan). To the extent that working capital at the effective time is less or more than \$400,000, there may be a post-closing adjustment to the purchase price.

Former ComSource shareholders are also entitled to receive additional cash payments of up to an aggregate of \$21.0 million, subject to an earn-out based upon the acquired business achieving certain earnings milestones within 24 months following the closing. We estimated the fair value of the earn-out to be \$16.2 million at the acquisition date, calculated using a discounted cash flow method, which has been recorded in the consolidated balance sheet. As of June 30, 2011, we estimated the fair of the earn-out to be approximately \$16.6 million.

ComSource employs 50 staff and provides independent testing and evaluation of a variety of telecommunications equipment and related recurring long term application support, including new feature sets. Client testing includes basic performance, data assurance, reliability and system security. The acquisition of ComSource provides the

Company with further entry into the growing wireless market.



## Customers

We have established a diversified base of customers in a variety of market verticals, including providing services directly to end-clients as a prime contractor and as a subcontractor under other prime contractors. Our customers include government, enterprise, media, maritime and wireless service providers. We typically rely upon a small number of customers, or prime contractors in the case we are acting as a subcontractor, and which we generally refer to in the aggregate as customers, for a large portion of our revenues. We derived 19% of our revenues in the year ended June 30, 2011 from our work as a subcontractor from Northrop Grumman Information Technologies Inc. ( Northrop ), which has a prime contract with the U.S. Government. The contract between Northrop and the U.S. Government will expire in February 2012 and a follow on project was awarded to another contractor. We have contracted with a subcontractor under the new program, to provide services similar to those provided to Northrop. This subcontract is expected to continue to be material to our results of operations. We expect that in the near term a significant portion of our revenues will continue to be derived from a limited number of customers (the identity of whom may vary from year to year) or other contractors, as we seek to expand our business and customer base. The U.S. Government could reduce or terminate a prime contract under which we are a subcontractor, irrespective of the quality of our services as a subcontractor. See the section entitled Risk Factors.

## Backlog

At June 30, 2011, our backlog was approximately \$232.0 million compared to approximately \$163.9 million at June 30, 2010. We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped where installation has not been completed and final acceptance has not been received from the customer. Our backlog at any given time is not necessarily indicative of future period revenues. A substantial portion of our backlog is comprised of large orders, the cancellation of any of which could have a material adverse effect on our operating results. For example, at June 30, 2011, \$94.3 million, or approximately 40.7%, of our backlog represented contracts with three customers. We cannot assure you that these contracts or any others in our backlog will not be cancelled, delayed or revised. See the section entitled Risk Factors.

## Product Design, Assembly and Testing

Within our infrastructure business, we assign a project team to each of our customer contracts. Each team is led by a project engineer who is responsible for execution of the project. This includes engineering and design, assembly and testing, installation and customer acceptance. A project may include engineers, integration specialists, buyer-planners and an operations team. Our standard satellite ground segment systems are manufactured using a standard modular production process. Typically, long-term projects require significant customer-specific engineering, drafting and design efforts. Once the system is designed, the integration specialist works with the buyer-planner and the operations team to assure a smooth transfer from the engineering phase to the integration phase. The integration phase consists mainly of integrating the purchased equipment, components and subsystems into a complete functioning system. Assembly, integration and test operations are conducted on both an automated and manual basis.

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



## **Research and Development**

We have developed internal research and development resources in Internet protocol networks, content delivery networks, broadcast systems, network management systems and pre-engineered systems. The costs of developing new technologies are funded by our investments and by development funded by specific customer program requirements. This approach provides us with a cost-effective means to develop new technology, while minimizing our direct research and development expenditures. Furthermore, we believe that our research and development capabilities allow us to offer added value in developing solutions for our customers, while at the same time we maintain the opportunity to develop products through our strategic supplier relationships. Our internal research and development efforts generally focus on the development of products and services not available from other suppliers to the industry. Current efforts are focused on expanding the Tempo Enterprise Media Platform, continued development of our software-based distributed core network to support our wireless hosted switch service offering for our service provider customers, development of multimedia broadcast data center solutions for direct to home, TV to mobile devices and IPTV applications, expanding X and Ka band product capabilities, enhancements to pre-engineered AxxSys network management systems for all our earth terminal and network customers and pre-engineered Explorer satellite systems for our government customers and enhancements to our se@comm maritime communications suite of software products and value added services. For the years ended June 30, 2011, 2010 and 2009, we have incurred approximately \$4.3 million, \$3.3 million, and \$2.4 million, respectively, in internal research and development expenses.

## **Intellectual Property**

We rely heavily on the technological and creative skills of our personnel, new product developments, computer programs and designs, frequent product enhancements, reliable product support and proprietary technological expertise in maintaining our competitive position. We have secured patent protection on some of our products, and have secured trademarks and service marks to protect some of our products and services.

We currently have been granted six patents in the United States, one for remote access to the Internet using satellites, another for satellite communication with automatic frequency control, another for a monitor and control system for satellite communications networks and the like, another for implementing facsimile and data communications using Internet protocols, and two for a dish antenna kit including alignment tool. We have one other patent pending in the United States for a distributed satellite-based cellular network. We currently have one Patent Cooperation Treaty patent application pending for implementing facsimile and data communications using Internet protocols. We also intend to seek additional patents on our technology, if appropriate. We have received trademark registration for Globecomm, GSI and Telaurus in the United States and various other countries, and for Globecomm Systems Inc. in the European Community, Russia, and the People's Republic of China. We have also received trademark registrations in the United States for MBB2001, CTF 2001, CES 2001 and AxxSys, which relate to our pre-engineered systems; for SkyBorne, relating to our broadcasting services; for se@comm and other marks relating to our maritime services; for the GSI logo; and for various other marks related to our products and services. We have other trademarks and service marks pending and intend to seek registration of other trademarks and service marks in the future.

## **Government Regulations**

### *Operations and Use of Satellites*

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate Federal Communications Commission, or FCC, licensed teleports in Hauppauge, New York, and Laurel, Maryland, subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of the FCC. Pursuant to the FCC Act and FCC rules and regulations, we have obtained or applied for, and are required to maintain

radio transmission licenses from the FCC for both domestic and foreign operations of our teleports. We have also obtained and maintain authorization issued

under Section 214 of the FCC Act to act as a telecommunications carrier, which authorization also extends to GNSC, and have obtained and maintain similar authorization for Telaurus. We have also obtained a license from Agentschap Telecom, the licensing authority in The Netherlands, for the teleports operated by Mach 6 and C2C in The Netherlands. These licenses should be renewed in the normal course as long as we remain in compliance with applicable rules and regulations relating to the licenses. However, we cannot guarantee that additional licenses will be granted when our existing licenses expire, nor can we assure you that the applicable regulatory agencies will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses.

We are also required to comply with 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.

The licenses and authorizations held by Globecomm for the licensed teleport in Hauppauge, New York, extend to GNSC and GNSC currently provides services in accordance with the requirements of the Globecomm licenses and authorizations. GNSC and GSM may in the future seek to obtain licenses and/or authorizations to provide services in their own names; however, we cannot guarantee that such additional licenses and authorizations will be granted by the FCC.

### ***Common Carrier Regulation***

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

### ***Foreign Ownership***

The FCC Act and FCC regulations impose restrictions on foreign ownership of our teleports. These requirements generally forbid more than 20% ownership or control of an FCC licensee by non-United States citizens and more than 25% ownership of a licensee's parent by non-United States citizens. The FCC may authorize foreign ownership in the licensee's parent in excess of these percentages. Under current policies, the FCC has granted these authorizations where the applicant does not control monopoly or bottleneck facilities and the foreign owners are citizens of countries that are members of the World Trade Organization or provide equivalent competitive opportunities to United States citizens.

We may, in the future, be required to seek FCC approval if foreign ownership of our stock exceeds the thresholds mentioned above. 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. We have no knowledge of any present foreign ownership which would result in a violation of the FCC rules and regulations.

Some of our U.S. government contracts also impose restrictions on foreign ownership of our Company. These contracts require that we identify whenever a foreign person has 5% or greater ownership or control of our Company and take steps to mitigate the control and influence such foreign persons have on our business. If we are not able to effectively mitigate such control or influence, we may lose our eligibility for those U.S. government contracts where foreign ownership or controlling interest of the contractor is a factor in contractor selection.

***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 operate or intend to operate have telecommunications laws and regulations that do not currently contemplate technical advances in

telecommunications technology like Internet/intranet transmission by satellite. We cannot assure you that the present regulatory environment in any of those countries will not be changed in a manner which may have a material adverse impact on our business. Either we or our local sales representatives typically must obtain authorization for each country in which we provide our satellite-delivered services. Although we believe that we or our local sales representatives will be able to obtain the requisite licenses and approvals from the countries in which we intend to provide products and services, the regulatory schemes in each country are different, and thus there may be instances of noncompliance of which we are not aware. Although we believe these regulatory schemes will not prevent us from pursuing our business plan, we cannot assure you that our licenses and approvals are or will remain sufficient in the view of foreign regulatory authorities. In addition, we cannot assure you that necessary licenses and approvals will be granted on a timely basis, or at all, in all jurisdictions in which we wish to offer our products and services or that the applicable restrictions will not be unduly burdensome.

### ***Regulation of the Internet***

Our Internet operations (other than the operation of a teleport) are not currently subject to direct government regulation in the United States or most other countries, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, due to the increasing popularity and use of the Internet it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues like user privacy and expression, pricing of products and services, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications.

We anticipate that a substantial portion of our Internet operations will be carried out in countries which may impose greater regulation of the content of information coming into their country than that which is generally applicable in the United States. Examples of this include privacy regulations in Europe and content restrictions in countries, such as the People's Republic of China. To the extent that we provide content as a part of our Internet services, we will be subject to laws regulating content. Moreover, the adoption of laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our Internet services, or increase our cost of doing business or otherwise negatively affect our business. In addition, the applicability to the Internet of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel and personal privacy is uncertain. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Changes to these laws intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace. These changes could reduce demand for our products and services or could increase our cost of doing business as a result of costs of litigation or increased product development costs.

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

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 to new or increased taxes and contribution requirements that could affect our profitability, particularly if we are not able to pass them through to customers for either competitive or regulatory reasons.

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

countries could be affected by the availability and



cost of local telephone or other telecommunications services required to connect with our facilities in those countries.

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

The sale of our products and services outside the United States is subject to compliance with the regulations of the United States Export Administration and, in certain instances, with 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 or implement our services in some countries, these products or services must satisfy the technical requirements of the particular country. If we were unable to comply with these requirements with respect to a significant quantity of our products, our sales in those countries could be restricted, which could have a material adverse effect on our business, financial condition and results of operations.

### **Employees**

As of June 30, 2011, we had 475 full-time employees, including 237 in engineering and program management, 115 in manufacturing, operations support and network operations, 47 in sales and marketing and 76 in management and administration. Our employees are not covered by any collective bargaining agreements. We believe that our relations with our employees are good.

### **Financial Information About Geographic Areas**

Revenues from foreign sales as a percentage of total revenues for each of the three years in the period ended June 30, 2011 are set forth in Note 15 of the Notes to Consolidated Financial Statements.

### **Financial Information About Business Segments**

The revenues and operating profits of each business segment for each of the three years in the period ended June 30, 2011 and the identifiable assets attributable to each business segment as of June 30, 2011 and June 30, 2010 are set forth in Note 14 of the Notes to Consolidated Financial Statements.

### **Available information**

We maintain an Internet website at [www.globecommsystems.com](http://www.globecommsystems.com) where our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, any amendments to these reports and all other SEC documents are available without charge, as soon as reasonably practicable following the time that they are filed with or furnished to the SEC. Information contained on our website does not constitute a part of this Annual Report on Form 10-K.

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

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

***Reductions in telecommunications equipment and systems spending have negatively affected our revenues and profitability of our infrastructure solutions segment, which may not be offset by the growth in our services segment.***

During the past several years, as a consequence of the worldwide financial and economic crisis and business downturn, the global economy has been adversely impacted and nearly all businesses, including ours, have faced uncertain economic environments. 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 years ended June 30, 2011, our infrastructure solutions segment in particular was impacted by these factors and incurred operating losses. It is currently difficult to assess

whether or not future bookings or revenues in this segment will meet or exceed the levels experienced in the recent past. Moreover, the profit margins on future bookings could be compressed due to competitive pressures. The growth of our services segment in recent periods may not be sufficient to offset any prolonged continuation of a decline in business in our infrastructure segment.

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

We rely on a small number of customer contracts, including those in which we provide subcontractor services for a prime contractor, for a large portion of our revenue. In the year ended June 30, 2011, we derived 19% of our revenues from our work as a subcontractor from Northrop, which has a prime contract with the U.S. Government. The contract between Northrop and the U.S. Government will expire in February 2012 and a follow on project was awarded to another contractor. We have contracted with a subcontractor under the new program, to provide services similar to those provided to Northrop. This subcontract is expected to continue to be material to our results of operations. Further, at June 30, 2011, \$94.3 million, or approximately 40.7%, of our backlog represented contracts with three customers, including Northrop. If our key customers are unable to implement their business plans, the market for these customers' services declines, political or military conditions make performance impossible or if any or all of the major customers modify or terminate their agreements with us, or a prime contractor we are working with loses its contract, and we are unable to replace these contracts, our results of operations, business and financial condition would be materially harmed.

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

In the year ended June 30, 2011, we derived 65% of our consolidated revenues from the government marketplace. This business, in particular the service segment therein, tends to have higher gross margins than other markets we serve. A future reduction in the proportion of our business from the government marketplace, or the recent decreases and expected further decreases in the government agency budgets, would negatively impact our future results of operations.

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

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

We regularly act as subcontractor to prime contractors, principally in the government marketplace. In these subcontractor arrangements, we have no control over the contracting process and we may not be able to influence or control issues that arise between the prime contractor and its customer. Our future success may be materially impaired if the companies for which we serve as subcontractor cannot obtain or renew their contracts with the ultimate customer, which has happened in the past, including the expiration of the U.S. Government's prime contract with

Northrop. Also, disputes between a prime contractor and its

customer could result in a customer terminating the contract, which could negatively impact our operating results, irrespective of the quality of our services as a subcontractor.

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

We market and sell a substantial portion of our services and products internationally. We anticipate that international sales will continue to account for a significant portion of our total revenues for the foreseeable future, including revenues from our Mach 6, Telaurus, C2C and Evocomm 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 services and products to customers;

difficulties in collecting accounts receivable could affect our results of operations;

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

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

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

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

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

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

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

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

potentially adverse taxes could affect our results of operations.

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

***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.***

Future revenues and results of operations of our services business are dependent on the development of the market for their current and future services. In the year ended June 30, 2011, services revenues were 69% of total revenue,

compared to 60% and 48% in fiscal 2010 and 2009, respectively. The service business tends to have significantly higher gross margins than our infrastructure solutions business. Our revenues and results of operations may also be affected by our entry into contracts bearing lower gross margins due to competitive pressures. A future reduction in the proportion of our services business would disproportionately impact our results of operations.

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

We derive a substantial portion of our revenues from fixed-price projects, particularly within the infrastructure segment. 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.

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

- 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 or investment does not meet expectations;
- increased expenses associated with the consummation and integration of an acquisition; and
- loss of key employees, customers or suppliers of any acquired business.

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

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

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 and C2C's revenues and results of operations are dependent on the infrastructure of the network operations center and teleport at our Laurel, Maryland and Netherlands facilities, respectively. A catastrophic event to any of these facilities or to the infrastructure of the surrounding areas would result in significant delays in restoring services capabilities. These capabilities permit us to offer an integrated suite of services and products and the incapacity of our communications infrastructure would also negatively impact our ability to sell our infrastructure solutions. This would result in the loss of revenues and adversely affect our business, results of operations and financial condition.

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

The markets in which we operate are highly competitive and this competition could harm our ability to sell our services and products on prices and terms favorable to us. Our primary competitors in the infrastructure solutions market generally fall into two groups: (1) system integrators, 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 such as CapRock and Segovia, and satellite owners like SES Americom and Intelsat. We anticipate that our competitors may develop or acquire services that provide functionality that is similar to that provided by our services and that those services may be offered at significantly lower prices or bundled with other services. These competitors may have the financial resources to withstand substantial price competition, may be in a better position to endure difficult economic conditions in international markets and may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Moreover, many of our competitors have more extensive customer bases, broader customer relationships and broader industry alliances than we do that they could use to their advantage in competitive situations.

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

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

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

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

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

- the acceptance of our services and products by customers.

If our services and products 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 and depressed margins. As a result, we may not be able to grow our infrastructure business, our revenues may decline from current levels and our results of operations may be harmed. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We currently have been granted six patents, and have one patent and one provisional patent application pending in the United States. We currently have one Patent Cooperation Treaty patent application pending. We also intend to seek further patents on our technology, if appropriate. We cannot assure you that patents will be issued for any of our pending or future patent applications or that any claims allowed from such applications will be of sufficient scope, or be issued in all countries where our services and products can be sold, to provide meaningful protection or any commercial advantage to us. Also, our competitors may be able to design around our patents. The laws of some foreign countries in which our services and products are or may be developed, manufactured or sold may not protect our services and products 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 services and products more likely.

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

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

We cannot be sure that the products, services, technologies and advertising we employ in our business do not or will not infringe valid patents, trademarks, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Prosecuting infringers and defending against intellectual property infringement claims could be time consuming and expensive,

and regardless of whether we are or are not successful, could cause substantial expenses and disrupt our business. We may incur substantial expenses in defending against these third party claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability and/or may materially disrupt the conduct of, or necessitate the cessation of, segments of our business.

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

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

From July 1, 2010 through August 31, 2011, our stock price ranged from a low of \$6.52 per share to a high of \$16.43 per share. The market price of our common stock, like that of the securities of many telecommunications and high technology industry companies, could be subject to significant fluctuations and is likely to remain volatile based on many factors, including the following:

- quarterly variations in operating results;
- announcements of new technology, products or services by us or any of our competitors;
- changes in financial estimates or recommendations by securities analysts;
- general market conditions, including periods of significant volatility; or
- domestic and international economic factors unrelated to our performance.

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

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

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

Our common stock is currently traded on the Nasdaq Global Market. Because of the relatively small number of shares that are traded, 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.

## **Risks Related to Government Approvals**

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

### ***Operations and Use of Satellites***

We are subject to various federal laws and regulations, which may have negative effects on our business. We operate FCC licensed teleports in Hauppauge, New York, and Laurel, Maryland subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of the FCC. We cannot guarantee that the FCC will grant renewals when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We are also required to comply with FCC regulations regarding the exposure of humans to radio frequency radiation from our teleports. These regulations, as well as local land use regulations, restrict our freedom to choose where to locate our teleports. In addition, prior to a third party acquisition of us, we would need to seek approval from the FCC to transfer the radio transmission licenses we have obtained to the third party upon the consummation of the acquisition. However, we cannot assure you that the FCC will permit the transfer of these licenses. These approvals may make it more difficult for a third party to acquire us.

### ***Common Carrier Regulation***

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

### ***Foreign Regulations***

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

### ***Regulation of the Internet***

Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted at the local, national or international levels with respect to the Internet, covering issues including user privacy and expression, pricing of services and products, taxation, advertising, intellectual property rights, information security or the convergence of traditional communication services with Internet communications. It is anticipated that a substantial portion of our Internet operations will be carried out in countries that may impose greater regulation of the content of information coming into the country than that which is generally applicable in the United States,



including but not limited to privacy regulations in numerous European countries and content restrictions in countries such as the People's Republic of China. To the extent that we provide content as a part of our Internet services, it will be subject to laws regulating content. Moreover, the adoption of laws or regulations may decrease the growth of the Internet, which could in turn decrease the demand for our Internet services or increase our cost of doing business or in some other manner have a material adverse effect on our business, operating results and financial condition. In addition, the applicability of existing laws governing issues including property ownership, copyrights and other intellectual property issues, taxation, libel, court jurisdiction and personal

privacy to the Internet is uncertain. The vast majority of these laws were adopted prior to the advent of the Internet and related technologies and, as a result, the laws do not contemplate or address the unique issues of the Internet and related technologies. Changes to these laws intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace which could reduce demand for our services and products, could increase our cost of doing business as a result of costs of litigation or increased product development costs, or could in some other manner have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

### ***Foreign Ownership***

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

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

In light of the nature of countries in which we sell products and services, we are subject to the Foreign Corrupt Practices Act, or the FCPA, which generally prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. The FCPA applies to companies, individual directors, officers, employees and agents. Under the FCPA, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. If we or our intermediaries fail to comply with the requirements of the FCPA, or similar laws of other

countries, such as the recently-effective UK Anti-Bribery Act, governmental authorities in the United States or elsewhere, as applicable, could seek to impose civil and/or criminal penalties, which could have a material adverse effect on our business, results of operations, financial conditions and cash flows.

## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K (this Annual Report ) contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words believe, expect, will, anticipate, intend, estimate, project, assume or other similar expressions, although not all forward-looking statements contain these identifying words. All statements in this Annual Report regarding our future strategy, future operations, projected financial position, estimated future revenue, projected costs, future prospects, and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements. You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Important risks that might cause our actual results to differ materially from the results contemplated by the forward-looking statements are contained in Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report and in our subsequent filings with the Securities and Exchange Commission ( SEC ). Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this Annual Report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our stockholders.

### Item 1B. Unresolved Staff Comments.

None.

### Item 2. Properties

We own a facility containing approximately 122,000 square feet of space on approximately seven acres located at 45 Oser Avenue, Hauppauge, New York. This facility houses our principal offices, teleport facility and production facilities, as well as the offices and network operations center of GNSC. We also own a facility containing approximately 20,000 square feet of space on approximately three acres located in Laurel, Maryland, which houses the teleport facility and network operations center of GSM. We lease warehouse space in Hauppauge, New York and rent office space in Laurel, Maryland, Frederick, Maryland, Cedar Knolls, NJ, Arlington, Virginia, the Netherlands, the United Kingdom, Germany, the United Arab Emirates, Singapore, Hong Kong, Afghanistan, and South Africa. We believe that our facilities are adequate for our current needs and for the foreseeable future; we also expect that suitable additional space will be available as needed. Total monthly rent expense for these locations is approximately \$243,000.

### Item 3. Legal Proceedings

None.

### Item 4. Removed and Reserved

None.



## PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is quoted on the Nasdaq Global Market under the symbol GCOM. The quarterly high and low sales prices of our common stock for fiscal 2011 and 2010 are as follows:

	<b>High</b>	<b>Low</b>
<b>2011</b>		
Quarter ended September 30, 2010	\$ 8.73	\$ 6.52
Quarter ended December 31, 2010	10.19	7.86
Quarter ended March 31, 2011	12.34	8.96
Quarter ended June 30, 2011	16.00	11.63
<b>2010</b>		
Quarter ended September 30, 2009	\$ 8.57	\$ 6.34
Quarter ended December 31, 2009	8.24	6.36
Quarter ended March 31, 2010	8.29	6.54
Quarter ended June 30, 2010	8.99	7.25

At September 9, 2011, there were approximately 3,600 stockholders of record of our common stock, as shown in the records of our transfer agent.

At the close of the Nasdaq Global Market on September 9, 2011, our market price per share was \$12.92.

As of June 30, 2011, we had not declared or paid dividends on our common stock since inception and we do not expect to pay dividends in the foreseeable future.

The table below sets forth securities we have authorized for issuance under our equity compensation plans.

**Equity Compensation Plan Information as of June 30, 2011**

<b>PLAN CATEGORY</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>

Equity compensation plan approved by security holders	736,574	\$	6.52	571,968
Equity compensation plan not approved by security holders(1)	35,000		6.82	
Total	771,574	\$	6.53	571,968

(1) Shares were issued as part of the Globecomm Systems/Telaurus 2009 Special Equity Incentive Plan, which was established in connection with the acquisition of Telaurus. The Compensation Committee of our board of directors administers the plan. The plan allowed for (i) stock option grants with a ten-year limit on exercise from the date of the grant (with 1/4 of the stock option grant vesting on the anniversary of the date of the grant each year for four years), (ii) restricted stock grants (with 1/3 of the restricted stock grant vesting on the anniversary of the date of the grant each year for three years) and (iii) restricted stock unit grants (with 1/3 of the restricted stock unit grant becoming transferable on

the anniversary of the date of the grant each year for three years). Under the plan, awards could be granted with respect to 60,000 shares of common stock of the Company, 35,000 shares of which were granted in the form of restricted stock. Pursuant to its terms, no further awards may be made under the plan. Awards are subject to adjustments upon certain changes in our common stock or other corporate events.

### **Performance Graph**

Set forth below is a graph comparing the cumulative total stockholder return, assuming dividend reinvestment of \$100 invested in the Company's common stock on June 30, 2006 through June 30, 2011 with the cumulative total return, assuming dividend reinvestment of \$100 invested in the Nasdaq Global Market (U.S.) Index and a Self Constructed Peer Group Index. The peer group consists of the following companies: Comtech Telecommunications Corp., EMS Technologies, Inc., ViaSat, Inc., and Telecommunication Systems Inc.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
Among Globecomm Systems Inc., The NASDAQ Composite Index  
And A Peer Group

\* \$100 invested on 6/30/06 in stock or index, including reinvestment of dividends.  
Fiscal year ending June 30.

### **Item 6. Selected Financial Data**

Our selected consolidated financial data as of and for each of the five years in the period ended June 30, 2011 have been derived from our audited consolidated financial statements. EBITDA represents net income before interest income, interest expense, provision (benefit) for income taxes, and depreciation and amortization expense. EBITDA does not represent cash flows defined by accounting principles generally accepted in the United States and does not necessarily indicate that our cash flows are sufficient to fund all



of our cash needs. We disclose EBITDA since it is a financial measure commonly used in our industry. EBITDA facilitates internal comparisons of our historical financial position and operating performance on a more consistent basis, we also use EBITDA in measuring performance relative to that of our competitors and in evaluating acquisition opportunities. EBITDA is not meant to be considered a substitute or replacement for net income as prepared in accordance with accounting principles generally accepted in the United States. EBITDA may not be comparable to other similarly titled measures of other companies.

We record an order in backlog when we receive a firm contract or purchase order, which identifies product quantities, sales price, service dates and delivery dates. Backlog represents the amount of unrecorded revenue on undelivered orders and services to be provided and a percentage of revenues from sales of products that have been shipped where installation has not been completed and final acceptance has not been received from the customer. Our backlog at any given time is not necessarily indicative of future period revenues.

**Selected Financial Data**  
(In thousands, except per share data)

	Years Ended June 30,				
	2011	2010	2009	2008	2007
<b>Statements of Operations Data:</b>					
Revenues from services	\$ 188,700	\$ 135,796	\$ 81,344	\$ 62,891	\$ 36,133
Revenues from infrastructure solutions	85,491	92,021	88,817	133,634	114,612
<b>Total revenues</b>	<b>274,191</b>	<b>227,817</b>	<b>170,161</b>	<b>196,525</b>	<b>150,745</b>
Costs and operating expenses:					
Costs from services	131,329	99,424	60,995	47,739	29,052
Costs from infrastructure solutions	70,423	75,974	73,877	106,699	92,197
Selling and marketing	18,015	14,977	12,985	10,873	8,376
Research and development	4,304	3,342	2,392	1,913	1,451
General and administrative	30,038	23,957	15,954	15,888	12,297
Earn-out fair value adjustments	4,824	178			
<b>Total costs and operating expenses</b>	<b>258,933</b>	<b>217,852</b>	<b>166,203</b>	<b>183,112</b>	<b>143,373</b>
Income from operations	15,258	9,965	3,958	13,413	7,372
Other income (expense):					
Interest income	186	386	534	1,733	1,370
Interest expense	(410)	(106)		(285)	(205)
Income before income taxes	15,034	10,245	4,492	14,861	8,537
Provision (benefit) for income taxes	6,046	2,343	1,193	(12,158)	211
<b>Net income from continuing operations</b>	<b>\$ 8,988</b>	<b>\$ 7,902</b>	<b>\$ 3,299</b>	<b>\$ 27,019</b>	<b>\$ 8,326</b>
Basic net income from continuing operations per common share					
	\$ 0.42	\$ 0.38	\$ 0.16	\$ 1.39	\$ 0.53
Diluted net income from continuing operations per common share					
	\$ 0.41	\$ 0.38	\$ 0.16	\$ 1.34	\$ 0.50
Weighted-average shares used in the calculation of basic net income from continuing operations per common share					
	21,332	20,560	20,219	19,476	15,795
Weighted-average shares used in the calculation of diluted net income from continuing operations per common share					
	22,026	20,992	20,507	20,140	16,672



	Years Ended June 30,				
	2011	2010	2009	2008	2007
<b>Other Operating Data:</b>					
Net income	\$ 8,988	\$ 7,902	\$ 3,299	\$ 27,019	\$ 8,326
Other expense (income), net	224	(280)	(534)	(1,448)	(1,165)
Provision (benefit) for income taxes	6,046	2,343	1,193	(12,158)(a)	211
Depreciation and amortization	9,703	7,479	5,968	5,742	3,333
<b>EBITDA</b>	<b>\$ 24,961</b>	<b>\$ 17,444</b>	<b>\$ 9,926</b>	<b>\$ 19,155</b>	<b>\$ 10,705</b>
Cash flows provided by operating activities	\$ 16,506	\$ 13,560	\$ 9,011	\$ 9,207	\$ 14,357
Cash flows used in investing activities	(28,494)	(28,026)	(16,719)	(5,008)	(36,877)
Cash flows provided by financing activities	16,891	13,449	339	21,642	23,566
Capital expenditures	9,363	8,772	4,336	5,008	17,808(c)
Backlog at end of year	231,997	163,937	153,865	146,787	141,198

	June 30,				
	2011	2010	2009	2008	2007
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 47,964	\$ 42,863	\$ 44,034	\$ 51,399(b)	\$ 25,558
Working capital	79,686	76,712	74,644	79,009	37,251
Total assets	294,611	240,710	191,539	193,092	142,883
Long term liabilities	33,517(f)	14,021(e)	1,506	957	13,568(d)
Total stockholders' equity	183,790	167,103	154,812	148,776	83,513

- (a) During fiscal 2008 we recorded a non-recurring tax benefit of \$12.5 million primarily due to our recognition of a significant portion of our deferred tax assets through a reduction in our deferred tax asset valuation allowance.
- (b) The increase in cash at June 30, 2008 is due to approximately \$36.4 million in net proceeds from an offering of equity securities completed in August and September 2007.
- (c) Capital expenditures of \$17.8 million primarily related to the purchase of network operations center and teleport assets primarily for a large program with Showtime Network Inc. as to which service began on July 1, 2007. In addition, we upgraded our facility to meet the requirements of our increase in business levels.
- (d) The increase in long term liabilities at June 30, 2007 is primarily due to a term loan used to partially fund the acquisition of GlobalSat. The balance of the term loan was repaid on September 26, 2007.
- (e) The increase in long term liabilities at June 30, 2010 is primarily due to a term loan used to partially fund the acquisition of C2C, Evocomm and Evosat on March 5, 2010.

- (f) The increase in long term liabilities at June 30, 2011 is primarily due to a term loan used to partially fund the acquisition of ComSource on April 8, 2011.

**Item 7. 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 Annual Report on Form 10-K. 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, our dependence on a limited number of contracts for a high percentage of our revenues and a significant reduction in revenues from the

government marketplace. These risks and others are more fully described in the Risk Factors section and elsewhere in this Annual Report on Form 10-K. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

## Overview

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

The products and services we offer include: pre-engineered products, 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 revenues are derived from, and are expected to continue to be derived from, developing countries. These countries carry with them more enhanced risks of doing business than in developed areas of the world, including the possibility of armed conflicts or the risk that more advanced land-based telecommunications will be implemented over time, and less developed legal protection for intellectual property.

In the year ended June 30, 2011, 19% of our consolidated revenues and 28% of our services revenues were derived from Northrop. The U.S. Government's prime contract with Northrop, under which we served as a subcontractor, will expire in February 2012 and will be replaced with a prime contract under which we are providing similar services as a subcontractor to another subcontractor. 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.

As a consequence of the worldwide financial and economic crisis and continuing business downturn that has occurred during the past several years, our customers have reduced and may continue to reduce their budgets for spending on equipment and systems, which has impacted our infrastructure segment revenues, resulting in an operating loss in this segment in the years ended June 30, 2011, 2010 and 2009. We are also experiencing a shift in our infrastructure business from numerous smaller orders to ones that are larger and include various milestones which affect revenue recognition. This may result in more significant quarter-to-quarter shifts in revenues from this segment in the future. We expect an increase in revenues from this segment in the fiscal 2012 as a result of this shift.

Our cash provided by operating activities was negatively impacted in fiscal years ended June 30, 2011 and 2010 due to the increase in inventories and the payment of accounts payable during the current period. This increase was the result of inventory purchases related to a significant contract in the infrastructure business which is now expected to be shipped in fiscal 2012. We have not recognized certain revenues from this contract as a result of not yet achieving certain contract milestones. Moreover, this contract carries an unusually low margin which will negatively impact our gross margin in fiscal 2012 as milestones are reached.



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. 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. Revenue and gross margin may also be affected by our recent \$74.1 million contract with a U.S. Government Agency, which carries a lower margin due to the competitive landscape.

Contract costs generally include purchased material, direct labor, overhead and other direct costs. Anticipated contract losses are recognized, as they become known. Costs from infrastructure solutions consist primarily of the costs of purchased materials (including shipping and handling costs), direct labor and related overhead expenses, project-related travel and living costs and subcontractor costs. Costs from services consist primarily of satellite space segment charges, voice termination costs, network operations expenses and Internet connectivity fees. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the network operations center on a 24 hour a day, seven-day a week basis, including personnel and related costs and depreciation. Selling and marketing expenses consist primarily of salaries, travel and living costs for sales and marketing personnel. Research and development expenses consist primarily of salaries and related overhead expenses. General and administrative expenses consist of expenses associated with our management, finance, contract, and administrative functions, as well as amortization of intangible assets.

### **Critical Accounting Policies**

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

#### ***Revenue Recognition    Infrastructure Solutions***

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



management, which is typically less than the customer's contractual holdback percentage. If the holdback is less than the

estimated value of installation, we will defer recognition of revenues, determined on a contract-by-contract basis equal to the estimated value of the installation services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues.

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

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

#### ***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 Intangibles Assets***

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. The amount of goodwill recorded in our balance sheet has significantly increased over the recent past as we have made several acquisitions. Goodwill and other indefinite life intangible assets are tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The impairment test is dependent upon estimated future cash flows of the services segment. There have been no events during the year ended June 30, 2011 that resulted in the impairment of any goodwill or other intangible assets.

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

We regularly estimate our ability to recover deferred income taxes, report such deferred tax assets at the amount that is determined to be more-likely-than-not recoverable, and we have to estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our current tax expense together with assessing any temporary differences resulting from the different treatment of certain

items, such as the timing for recognizing revenue and expenses for tax and accounting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheets.

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

At June 30, 2011 and June 30, 2010, we had a liability for unrecognized tax benefits of approximately \$1.4 million and \$1.1 million, respectively 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 June 30, 2011 and June 30, 2010 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 June 30, 2011 there was approximately \$3.7 million of unrecognized compensation cost related to non-vested stock-based compensation related to the restricted shares and restricted share units. The cost is expected to be recognized over a weighted-average period of 1.8 years. As of June 30, 2011 there was approximately \$240,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 3.1 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.

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

We maintain a liability for contingent consideration related to potential earn-out payments to the former shareholders of C2C, Evocomm and ComSource if certain milestones are met. These amounts are estimated based on a number of factors including likelihood of meeting those milestones based on forecasted results. We review these estimates and updated forecasts on a quarterly basis and record adjustments as required. In the year ended June 30, 2011, we recorded expense of approximately \$4.8 million in operating results relating to increases in these estimates.

### ***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 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 resulted in the inclusion of acquisition related costs of \$468,000 and \$940,000 in general and administrative expenses in the year ended June 30, 2011 and 2010, respectively.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Multiple-Deliverable Revenue Arrangements ( ASU 2009-13 ) which updates ASC Topic 605-25, Multiple Elements Arrangements, of the FASB codification. ASU 2009-13 provides new guidance on how to determine if an arrangement involving multiple deliverables contains more than one unit of accounting, and if so allows companies to allocate arrangement considerations in a manner more consistent with the economics of the transaction. ASU 2009-13 was effective for the Company, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this pronouncement did not have a material impact on the financial condition or results of operations for the year ended June 30, 2011.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements ( ASU 2010-06 ). ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. This update did not have a material impact on the Company's fair value disclosures.

In April 2010, the FASB issued ASU 2010-13, Compensation - Stock Compensation (Topic 718) - Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades (A Consensus of the FASB Emerging Issues Task Force) ( ASU 2010-13 ). ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. This clarification of existing practice is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. The adoption of this pronouncement will not have a material impact on the consolidated financial condition or results of operations.

## Results of Operations

### *Fiscal Years Ended June 30, 2011 and 2010*

Our consolidated results of operations for the year ended June 30, 2011 include results of ComSource, C2C and Evocomm. These acquisitions took place on April 8, 2011 and March 5, 2010 (for C2C and Evocomm), respectively, and were not included in the corresponding periods in fiscal 2010, except for four months of results for C2C and Evocomm.

*Revenues from Services.* Revenues from services increased by \$52.9 million, or 39.0%, to \$188.7 million for the fiscal year ended June 30, 2011 from \$135.8 million for the fiscal year ended June 30, 2010. The increase in revenues was due to an increase in our access product line of our managed network service line primarily in the government marketplace along with \$23.1 million of revenue from ComSource, C2C and Evocomm.

*Revenues from Infrastructure Solutions.* Revenues from infrastructure solutions decreased by \$6.5 million, or 7.1%, to \$85.5 million for the fiscal year ended June 30, 2011 from \$92.0 million for the fiscal year ended June 30, 2010. The decrease in revenues was primarily driven by a decline in bookings of contract orders due to the continued global economic slowdown, which resulted in government and commercial customers and prospects delaying or cancelling projects which affected, in particular, pre-engineered systems, as well as the unexpected delay in shipments for a major project. The Company expects a significant portion of these delayed shipments to be made in the next fiscal year. This project carries a lower than normal margin. Additionally, the Company also expects a significant amount of revenues under another large contract with lower than normal margins, due primarily to the competitive climate, to be shipped in the next fiscal year. 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 past.

*Costs from Services.* Costs from services increased by \$31.9 million, or 32.1%, to \$131.3 million for the fiscal year ended June 30, 2011 from \$99.4 million for the fiscal year ended June 30, 2010. Gross margin for services increased to 30.4% for the fiscal year ended June 30, 2011 compared to 26.8% for the fiscal year ended June 30, 2010. The increase in the gross margin was primarily driven by an increase in revenue in the government marketplace, which tends to have a higher margin. 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.

*Costs from Infrastructure Solutions.* Costs from infrastructure solutions decreased by \$5.6 million, or 7.3%, to \$70.4 million for the fiscal year ended June 30, 2011 from \$76.0 million for the fiscal year ended June 30, 2010. The gross margin from infrastructure solutions remained relatively consistent at 17.6% for the fiscal year ended June 30, 2011 compared to 17.4% for the fiscal year ended June 30, 2010.

*Selling and Marketing.* Selling and marketing expenses increased by \$3.0 million, or 20.3%, to \$18.0 million for the fiscal year ended June 30, 2011 from \$15.0 million for the fiscal year ended June 30, 2010. The increase was a result of increased proposal activity and marketing efforts in infrastructure, an increase in head count, and net increase of \$0.6 million of expenses incurred at ComSource, C2C and Evocomm.

*Research and Development.* Research and development expenses increased by \$1.0 million, or 28.8%, to \$4.3 million for the fiscal year ended June 30, 2011 from \$3.3 million for the fiscal year ended June 30, 2010. The increase was principally due to costs associated with the Tempo Enterprise Media Platform.

*General and Administrative.* General and administrative expenses increased by \$6.1 million, or 25.4%, to \$30.0 million for the fiscal year ended June 30, 2011 from \$24.0 million for the fiscal year ended June 30, 2010. The increase was a result of \$4.2 million of an increase in general and administrative expenses incurred at ComSource, C2C and Evocomm (inclusive of an increase of \$1.4 million of amortization of intangibles related to these acquisitions), along with an increase in headcount and stock compensation



expense and an increase in the accrual for the Company's pay for performance plan, partially offset by a decrease in acquisition costs of \$0.5 million and reduction of foreign currency expense of \$1.0 million compared to previous period due to the settlement of forward contracts to purchase Euros (includes the combined impact of a \$0.5 million gain in the fiscal year ended June 30, 2011 coupled with a \$0.5 million reduction of expense due to inclusion of \$0.5 million loss recorded in same period last year).

*Earn-out Fair Value Adjustments.* The earn-out fair value adjustments are a result of the earn-out accrual related to the acquisitions of C2C, Evocomm and ComSource. The expense in the year end June 30, 2011 includes additional expense recorded due to C2C and Evocomm performing better than our original forecasts along with a settlement reached for the second twelve month earn-out period due to the improved performance.

*Interest Income.* Interest income decreased by \$0.2 million, or 51.8%, to \$0.2 million for the fiscal year ended June 30, 2011 from \$0.4 million for the fiscal year ended June 30, 2010, as a result of a decrease in interest rates and a decrease in unrestricted cash balance during the year.

*Interest Expense.* Interest expense increased by \$0.3 million, as a result of the issuance of debt on March 5, 2010 related to the acquisition of C2C and Evocomm and April 8, 2011 related to the acquisition of ComSource.

*Provision for income taxes.* The provision for income taxes increased by \$3.7 million, or 158.0%, to \$6.0 million for the fiscal year ended June 30, 2011 compared to \$2.3 million for the fiscal year ended June 30, 2010. The provision for income taxes increased as a result of the increase in income before income taxes. The effective rate was 40% for the fiscal year ended June 30, 2011 compared to 23% for the fiscal year ended June 30, 2010. In addition, the effective rate for the fiscal year ended June 30, 2010 included a net benefit for non recurring tax adjustments which primarily represented research and development tax credits related to fiscal years 2006 through 2009. The effective rate for fiscal 2010 excluding these items was 37%. The effective rate increased in fiscal 2011 due to the earn-out fair value adjustment that is not deductible for income tax purposes. This increase was partially offset by a research and development credit for fiscal 2005, a benefit for the extension of the research and development credit that was enacted in the Tax Relief Act of 2010 that is retroactive to January 1, 2010 along with benefits for lower tax rates in certain foreign jurisdictions.

#### ***Fiscal Years Ended June 30, 2010 and 2009***

Our consolidated results of operations for the year ended June 30, 2010 include results of Mach 6, Telaurus, C2C, and Evocomm (four month of results are included in fiscal 2010 for C2C and Evocomm following the acquisition on March 5, 2010). These acquisitions took place on February 27, 2009, May 29, 2009, and March 5, 2010 (for C2C and Evocomm), respectively, and were not included in the corresponding periods in fiscal 2009, except for four months of results for Mach 6 and one month of Telaurus.

*Revenues from Services.* Revenues from services increased by \$54.5 million, or 66.9%, to \$135.8 million for the fiscal year ended June 30, 2010 from \$81.3 million for the fiscal year ended June 30, 2009. The increase in revenues was due to \$33.5 million of revenue from Mach 6, Telaurus, C2C and Evocomm along with an increase in our access product line of our managed network service line primarily in the government marketplace.

*Revenues from Infrastructure Solutions.* Revenues from infrastructure solutions increased by \$3.2 million, or 3.6%, to \$92.0 million for the fiscal year ended June 30, 2010 from \$88.8 million for the fiscal year ended June 30, 2009. The increase in revenue was due to the timing of revenue milestones reached in the system design and integration offering offset by a decrease in revenue in pre-engineered systems 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, in particular affected pre-engineered systems.

*Costs from Services.* Costs from services increased by \$38.4 million, or 63.0%, to \$99.4 million for the fiscal year ended June 30, 2010 from \$61.0 million for the fiscal year ended June 30, 2009. Gross margin for

services increased to 26.8% for the fiscal year ended June 30, 2010 compared to 25.0% for the fiscal year ended June 30, 2009. The increase in the gross margin was primarily driven by an increase in revenue in the government marketplace with higher margin.

*Costs from Infrastructure Solutions.* Costs from infrastructure solutions increased by \$2.1 million, or 2.8%, to \$76.0 million for the fiscal year ended June 30, 2010 from \$73.9 million for the fiscal year ended June 30, 2009. The gross margin from infrastructure solutions increased to 17.4% for the fiscal year ended June 30, 2010 compared to 16.8% for the fiscal year ended June 30, 2009. The increase in gross margin was mainly attributable to product mix, specifically the increase in margin in the government marketplace.

*Selling and Marketing.* Selling and marketing expenses increased by \$2.0 million, or 15.3%, to \$15.0 million for the fiscal year ended June 30, 2010 from \$13.0 million for the fiscal year ended June 30, 2009. The increase was primarily a result of marketing expenses of \$2.2 million incurred at Mach 6, Telaurus, C2C and Evocomm, partially offset by a decrease in salary and salary-related expenses and other marketing expenses due to previous cost savings initiatives.

*Research and Development.* Research and development expenses increased by \$1.0 million, or 39.7%, to \$3.3 million for the fiscal year ended June 30, 2010 from \$2.4 million for the fiscal year ended June 30, 2009. The increase was principally due to costs associated with expanding X and Ka band product capabilities, along with research and development costs of \$0.7 million at Telaurus.

*General and Administrative.* General and administrative expenses increased by \$8.0 million, or 50.2%, to \$24.0 million for the fiscal year ended June 30, 2010 from \$16.0 million for the fiscal year ended June 30, 2009. The increase was a result of \$4.8 million of general and administrative expenses incurred at Mach 6, Telaurus, C2C and Evocomm (inclusive of an increase of \$0.8 million of amortization of intangibles related to these acquisitions), acquisition-related costs of approximately \$0.9 million, an increase in the pay for performance plan based on operating results, \$0.5 million to record to the fair value of forward contracts to purchase euros to settle a purchase obligation, and an increase in salary and salary-related expenses due to increases in headcount. Acquisition-related costs of \$0.9 million were included in fiscal 2010, but not in fiscal 2009, due to a change in accounting principles adopted July 1, 2009.

*Earn-out fair value adjustments.* The earn-out fair value adjustment is a result of the earn-out accrual related to the acquisition of C2C and Evocomm on March 5, 2010.

*Interest Income.* Interest income decreased by \$0.1 million, or 27.7%, to \$0.4 million for the fiscal year ended June 30, 2010 from \$0.5 million for the fiscal year ended June 30, 2009, as a result of a decrease in interest rates.

*Interest Expense.* Interest expense increased by \$0.1 million, as a result of the issuance of debt on March 5, 2010 related to the acquisition of C2C and Evocomm.

*Provision for income taxes.* The provision for income taxes increased as a result of the increase in income before income taxes partially offset by a decrease in our effective rate to 23% for the year ended June 30, 2010 from 27% for the year ended June 30, 2009. The effective rate for the year ended June 30, 2010 included a net benefit for non recurring tax adjustments which primarily represented research and development tax credits related to fiscal years 2006 through 2009. Our effective rate for fiscal 2010 excluding these non recurring items was 37%. The effective rate for the year ended June 30, 2009 includes a discrete tax benefit associated with non-taxable life insurance proceeds due to the passing of our former President and a research and development tax credit.

## **Liquidity and Capital Resources**

At June 30, 2011, we had working capital of \$79.7 million, including cash and cash equivalents of \$48.0 million, net accounts receivable of \$59.3 million, inventories of \$42.4 million, prepaid expenses and other current assets of \$5.6 million and deferred income taxes of \$1.6 million, offset by \$31.4 million in accounts payable, \$13.6 million in deferred revenues, \$6.4 million in accrued payroll and related fringe benefits, \$19.7 million in accrued expenses and \$6.1 million in current portion of long term debt.

At June 30, 2010, we had working capital of \$76.7 million, including cash and cash equivalents of \$42.9 million, restricted cash of \$5.0 million, net accounts receivable of \$49.2 million, inventories of \$34.5 million, prepaid expenses and other current assets of \$3.1 million and current deferred income taxes of \$1.6 million, offset by \$36.9 million in accounts payable, \$2.3 million in deferred revenues, \$6.4 million in accrued payroll and related fringe benefits, \$11.5 million in accrued expenses and \$2.5 million in current portion of long term debt.

Net cash provided by operating activities during the fiscal year ended June 30, 2011 was \$16.5 million, which primarily related to a non-cash item representing depreciation and amortization expense of \$9.7 million primarily related to depreciation expense related to the network operations center, satellite earth station equipment and hosted mobile core switch asset and amortization expense related to acquisitions, net income of \$9.0 million, a decrease in deferred income taxes of \$5.2 million primarily due to net income generated in the period, earn-out fair value adjustments of \$4.8 million, non-cash stock compensation expense of \$3.7 million, offset by an increase in accounts receivable of \$8.6 million due to the timing of billings and collections from customers and a decrease in accounts payable of \$6.1 million due to the timing of inventory purchases and payments to vendors.

Net cash provided by operating activities during the fiscal year ended June 30, 2010 was \$13.6 million, which primarily related to an increase in accounts payable of \$11.3 million due to the increase in inventories and timing of payments to vendors, net income of \$7.9 million, a non-cash item representing depreciation and amortization expense of \$7.5 million primarily related to depreciation expense related to the network operations center and satellite earth station equipment and amortization expense related to acquisitions, non-cash stock compensation expense of \$2.3 million, an increase in accrued expenses of \$1.9 million resulting from customer deposits received as part of service agreements, a decrease in deferred income taxes of \$2.0 million primarily due to net income generated in the period partially offset by research and development credits for fiscal years ended June 30, 2006 through June 30, 2009, and an increase in accrued payroll and related fringe benefits of \$1.8 million due to awards under the pay for performance plan and an increase in headcount, partially offset by an increase in inventory of \$17.1 million due to timing of shipments and purchases of equipment for milestones to be reached in future periods, a decrease in deferred revenue of \$3.1 million due to timing differences between project billings and revenue recognition milestones resulting from specific customer contracts, and an increase in accounts receivable of \$1.1 million due to increase in revenue and timing of customer payments.

Net cash used in investing activities during the fiscal year ended June 30, 2011 was \$28.5 million, which consisted of \$19.1 million related to the acquisition of ComSource, the cash payment for the C2C and Evocomm earn-out of \$4.5 million, capital expenditures of \$9.4 million related to the purchase of hosted mobile core switch asset, network operations center and teleport assets and the cash payment for the Telaurus earn-out of approximately \$0.6 million offset by a decrease in restricted cash of \$5.0 million related to the settlement of the final payment for the C2C and Evocomm earn-out.

Net cash used in investing activities during the fiscal year ended June 30, 2010 was \$28.0 million, which consisted of \$13.9 million related to the acquisition of C2C and Evocomm, capital expenditures of \$8.8 million related to the purchase of hosted mobile core switch asset, network operations center and teleport assets and \$5.0 million of restricted cash related to a potential earn-out for C2C and Evocomm acquisitions.

Net cash provided by financing activities during the fiscal year ended June 30, 2011 was \$16.9 million, which primarily related to \$18.0 million of borrowings from the term note used to fund the acquisition of ComSource, \$2.0 million related to proceeds from the exercise of stock options, offset by \$3.1 million of repayments on the C2C and ComSource Acquisition loans.

Net cash provided by financing activities during the fiscal year ended June 30, 2010 was \$13.4 million, which primarily related to \$12.5 million of borrowings from the term note used to fund the acquisition of C2C and

Evocomm, \$1.1 million related to proceeds from the exercise of stock options, and \$0.5 million related to proceeds from the sale of common stock, partially offset by \$0.6 million of repayments on the C2C Acquisition loan.

On May 28, 2010, we entered into Amendment No. 4 to our committed secured credit facility with Citibank, N.A. ( Citibank ). The credit facility has been extended and expired on July 31, 2011. The credit facility was comprised of a \$65 million line of credit (the 2010 Line ) and a foreign exchange line in the amount of \$15 million. The 2010 Line included 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 term loans, each having a term of no more than five years, in the aggregate amount of up to \$40 million that can be used for acquisitions; and (d) \$10 million available for revolving credit borrowings.

On July 18, 2011, we entered into a new secured credit facility with Citibank which expires on October 31, 2014 (replacing the credit facility above). The credit facility is comprised of a \$72.5 million line of credit (the 2011 Line ) which includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$10 million available for commercial letters of credit; (c) a line for term loans, each having a term of no more than five years, in the aggregate amount of up to \$50 million that can be used for acquisitions; and (d) \$15 million available for revolving credit borrowings.

At our discretion, advances under the 2011 Line bear interest at the prime rate or LIBOR plus applicable margin based on our leverage ratio and are collateralized by a first priority security interest on all of our personal property. At June 30, 2011, the applicable margin on the LIBOR rate was 250 basis points. We are required to comply with various ongoing financial covenants, including with respect to the Company s leverage ratio, minimum cash balance, fixed charge coverage ratio and EBITDA minimums, with which we were in compliance at June 30, 2011. As of June 30, 2011, \$26.8 million was outstanding under the C2C and ComSource acquisition loans, of which \$6.1 million was due within one year. In addition, there were standby letters of credit of approximately \$6.9 million, which were applied against and reduced the amounts available under the credit facility as of June 30, 2011.

We entered into, and simultaneously closed, an Agreement and Plan of Merger (the Merger Agreement ) as of April 8, 2011 with ComSource Inc. ( ComSource ). Pursuant to the Merger Agreement, a newly-formed subsidiary merged with and into ComSource in exchange for an initial cash purchase price of \$19.9 million, funded through \$1.9 million of existing cash and \$18.0 million through the ComSource Acquisition Loan. To the extent that working capital at the effective time was less or more than \$400,000, there may be a post-closing adjustment to the purchase price. The ComSource Acquisition Loan provides that we will pay to Citibank, N.A. sixty consecutive monthly principal installments of \$300,000 each plus applicable interest.

Former ComSource shareholders are also entitled to receive additional cash payments of up to an aggregate of \$21.0 million, subject to an earn-out based upon the acquired business achieving certain earnings milestones within 24 months following the closing.

We lease satellite space segment services and other equipment and office space under various operating lease agreements, which expire in various years through fiscal 2017. Future minimum lease payments due on these leases through June 30, 2012 are approximately \$36.8 million.

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

Our future capital requirements will depend upon many factors, including the success of our marketing efforts in the services and infrastructure solutions business, the nature and timing of customer orders and the level of capital

requirements related to the expansion of our service offerings. Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements at least through June 30, 2012. 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, and 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.

### Contractual Obligations and Commercial Commitments

At June 30, 2011, we had contractual obligations and commercial commitments as follows (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating leases	\$ 70,591	\$ 36,755	\$ 24,648	\$ 8,425	\$ 763
Long-term debt	26,775	6,100	12,200	8,475	
Total contractual obligations	\$ 97,366	\$ 42,855	\$ 36,848	\$ 16,900	\$ 763

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Standby letters of credit	\$ 6,861	\$ 6,386	\$ 475	\$	\$
Total commercial commitments	\$ 6,861	\$ 6,386	\$ 475	\$	\$

Our tax liability for uncertain tax positions was approximately \$1.4 million at June 30, 2011. Until formal resolutions are reached between us and the tax authorities, the timing and amount of a possible audit settlement for uncertain tax benefits is not practicable. Therefore, we do not include this obligation in the table of contractual obligations.

In June 2011, the Company and the former owners of C2C and Evocomm reached a settlement agreement on the second earn-out period related to the acquisition of C2C and Evocomm resulting in a \$4.5 million liability for the final earn-out as of June 30, 2011. In July 2011 the \$4.5 million was paid to the former shareholders.

As part of the acquisition of ComSource, the former ComSource shareholders are also entitled to receive additional cash payments of up to an aggregate of \$21.0 million, subject to an earn-out based upon the acquired business achieving certain earnings milestones within 24 months following the closing. The Company has estimated the fair value of the earn-out to be \$16.6 million as of June 30, 2011.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

Our objective 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. In January 2010, we entered into foreign currency

forward exchange contracts to purchase approximately 2.3 million Euros to cover specific purchase commitments for material for an infrastructure program. In July 2010, October 2010 and January 2011, the Company purchased approximately 1.0 million, 0.1 million, and 1.2 million Euros, respectively, under these forward exchange contracts. We recorded approximately \$0.5 million gain to general and administrative expense in the year ended June 30, 2011 to adjust these contracts to market value. At June 30, 2011 we had no outstanding foreign currency forward 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 and from our variable interest rate long-term debt. Under our current positions, we do not use interest rate derivative instruments to manage exposure to interest rate changes. A change in our interest rate of 50 basis points on our long-term debt would have resulted in additional interest expense of approximately \$74,000 in the year ended June 30, 2011.

## **Item 8. Financial Statements and Supplementary Data**

The information required by this item is incorporated by reference to the Consolidated Financial Statements listed in Item 15(a) of Part IV of this Annual Report on Form 10-K.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

## **Item 9A. 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 June 30, 2011 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

*Management's Report on Internal Control Over Financial Reporting.* Under Section 404 of the Sarbanes-Oxley Act of 2002, management is required to assess the effectiveness of the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) as of the end of each fiscal year and to report, based on that assessment, whether the Company's internal control over financial reporting is effective.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting as of June 30, 2011. In making this assessment, the Company's management used the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal control over financial reporting.

Based on management's processes and assessment, as described above, management has concluded that, as of June 30, 2011, the Company's internal control over financial reporting was effective. We have excluded from this assessment the operations of ComSource since this subsidiary was acquired in the year ended June 30, 2011. ComSource contributed approximately \$3.9 million of revenue and a \$0.3 million loss before income taxes for the year ended June 30, 2011. Internal controls over financial reporting, no matter

how well designed, have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of June 30, 2011 has been audited by our independent auditors, as stated in their report, which appears in the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting on page F-2 of this Annual Report on Form 10-K.

*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 (the fourth quarter in the case of the annual report) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Item 9B. Other Information**

None.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

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

#### ***Code of Ethics and Business Conduct***

The Company has adopted a Code of Ethics and Business Conduct applicable to our employees and representatives. A copy of our Code of Ethics and Business Conduct is filed as an exhibit to this Annual Report on Form 10-K.

#### **Item 11. Executive Compensation**

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

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

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

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

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

**Item 14. Principal Accounting Fees and Services**

Information in response to this item is incorporated herein by reference to Fees Paid to Independent Registered Public Accounting Firm in the Registrant's Proxy Statement to be filed with the SEC.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

*(A)(1) Index to Consolidated Financial Statements*

<u>Reports of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of June 30, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Operations for the years ended June 30, 2011, 2010 and 2009</u>	F-4
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2011, 2010 and 2009</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2011, 2010 and 2009</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

*(2) Index to Consolidated Financial Statement Schedule*

<u>Schedule II Valuation and Qualifying Accounts</u>	S-1
--	-----

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

(3) *Index of Exhibits*

**Exhibit  
No.**

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the Registration Statement)).
- 10.1 Employment Agreement dated as of October 9, 2001 by and between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.2 The Amended and Restated 1997 Stock Incentive Plan (incorporated by reference to Exhibit 99 of the Registrant's Registration Statement on Form S-8 Registration, File No. 333-112351).
- 10.3 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the Registrant's Registration Statement on Form S-8, File No. 333-70527).
- 10.4 Employment Agreement, dated as of October 9, 2001, by and between Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.5 2006 Incentive Stock Plan. (incorporated by reference to Appendix A of the Registrant's Definitive proxy on schedule 14A, filed with the Commission on October 13, 2006).
- 10.6 Amendment to Employment Agreement, dated as of May 15, 2008, by and between Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.20 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2008).
- 10.7 Employment Agreement, dated as of June 30, 2008, by and between Keith Hall and the Registrant (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2008).
- 10.8 Employment Agreement, dated as of June 30, 2008, by and between Tom Coyle and the Registrant (incorporated by reference to Exhibit 10.24 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2008).
- 10.9 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, David E. Hershberg and the Registrant (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.10 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.11 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, Thomas C. Coyle and the Registrant (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.12 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, Keith Hall and the Registrant (incorporated by reference to Exhibit 10.8 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.13 Credit Agreement, dated March 11, 2009, by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated March 11, 2009).



- 10.14 Employment Agreement, dated as of July 21, 2009, by and between Keith Hall and the Registrant (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2009).
  - 10.15 Globecomm Systems Inc./Telaurus 2009 Special Equity Incentive Plan (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2009).
-

**Exhibit**

**No.**

- 10.16 Acquisition Agreement, dated March 5, 2010, by and among the Registrant, Globecomm Holdings BV, Globecomm (BVI) Ltd and Carrier to Carrier Telecom Holdings Limited (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K, dated March 5, 2010).
- 10.17 Asset Purchase Agreement, dated March 5, 2010, by and among the Registrant, Globecomm (BVI) Ltd, Carrier to Carrier Telecom Holdings Limited and Evocomm Communications Limited (incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K, dated March 5, 2010).
- 10.18 Amendment No. 4 to Credit Agreement, dated May 28, 2010 by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated May 28, 2010)
- 10.19 Agreement and Plan of Merger, dated as of April 8, 2011, by and among Comsource Inc., the Registrant, ComSource Merger Sub, Inc. and Jerald L. Cruce, as the Stockholders' Representative (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K, dated April 7, 2011).
- 10.20 Amendment No. 5 to Credit Agreement, dated April 7, 2011 by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated April 7, 2011).
- 10.21 Employment Agreement, dated as of June 23, 2011, by and between Andrew Silberstein and the Registrant (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated June 23, 2011).
- 10.22 Credit Agreement, dated July 18, 2011 by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated July 18, 2011).
- 10.23 Amended and Restated 2006 Stock Incentive Plan (filed herewith).
- 14 Registrant's Code of Ethics and Business Conduct (incorporated by reference to Exhibit 14 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2004).
- 21 Subsidiaries of the Registrant (filed herewith).
- 23 Consent of Independent Registered Public Accounting Firm (filed herewith).
- 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 Sarbanes Oxley Act of 2002 (filed herewith).

**(B) Exhibits**

The response to this portion of Item 15 is submitted as a separate section of this report.

**(C) Financial Statement Schedules**

The response to this portion of Item 15 is submitted as a separate section of this report.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBECOMM SYSTEMS INC.

Date: September 13, 2011

By:  
/s/ DAVID E. HERSHBERG

David E. Hershberg,  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>SIGNATURE</b>	<b>TITLE</b>	<b>DATE</b>
/s/ DAVID E. HERSHBERG David E. Hershberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	9/13/11
/s/ ANDREW C. MELFI Andrew C. Melfi	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	9/13/11
/s/ KEITH A. HALL Keith A. Hall	President and Chief Operating Officer and Director	9/13/11
/s/ RICHARD E. CARUSO Richard E. Caruso	Director	9/13/11
/s/ HARRY L. HUTCHERSON Jr. Harry L. Hutcherson Jr.	Director	9/13/11
/s/ BRIAN T. MALONEY Brian T. Maloney	Director	9/13/11
/s/ JACK A. SHAW Jack A. Shaw	Director	9/13/11

/s/ A. ROBERT TOWBIN Director 9/13/11

A. Robert Towbin

/s/ C.J. WAYLAN Director 9/13/11

C.J. Waylan

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Globecomm Systems Inc. (the Company ) as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2011. Our audits also included the financial statement schedule listed in the index at item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Globecomm Systems Inc. at June 30, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the guidance issued in Financial Accounting Standards Board ( FASB ) Statement No. 141(R), Business Combinations (codified in FASB Accounting Standards Codification Topic 805, Business Combinations ) on July 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Globecomm Systems Inc.'s internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Jericho, New York  
September 13, 2011

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited Globecomm Systems Inc.'s internal control over financial reporting as of June 30, 2011 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Globecomm Systems Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of ComSource Inc. which is included in the 2011 consolidated financial statements of Globecomm Systems Inc. and constituted approximately \$12.1 million of total assets as of June 30, 2011 and approximately \$3.9 million and \$0.3 million of revenue and loss before taxes, respectively, for the year then ended. Our audit of internal control over financial reporting of Globecomm Systems Inc. also did not include an evaluation of the internal control over financial reporting of ComSource Inc.

In our opinion, Globecomm Systems Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Globecomm Systems Inc. as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2011 and our report dated September 13, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Jericho, New York  
September 13, 2011

F-2

---

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

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 47,964	\$ 42,863
Restricted cash		5,025
Accounts receivable, net	59,335	49,222
Inventories	42,429	34,486
Prepaid expenses and other current assets	5,620	3,100
Deferred income taxes	1,642	1,602
Total current assets	156,990	136,298
Fixed assets, net	42,147	37,839
Goodwill	70,171	40,594
Intangibles, net	23,055	16,196
Deferred income taxes		7,635
Other assets	2,248	2,148
Total assets	\$ 294,611	\$ 240,710
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 31,403	\$ 36,929
Deferred revenues	13,649	2,290
Accrued payroll and related fringe benefits	6,412	6,390
Other accrued expenses	19,740	11,477
Current portion of long term debt	6,100	2,500
Total current liabilities	77,304	59,586
Other liabilities	9,248	2,443
Long term debt	20,675	9,375
Deferred income taxes	3,594	2,203
Commitments and contingencies		
Stockholders equity:		
Series A Junior Participating, shares authorized, shares issued and outstanding: none in 2011 and 2010		
Common stock, \$.001 par value, shares authorized: 50,000,000 at June 30, 2011 and 2010; shares issued: 22,927,635 at June 30, 2011 and 22,050,635 at June 30, 2010	23	22
Additional paid-in capital	196,688	189,401
Accumulated deficit	(10,358)	(19,346)
Treasury stock, at cost, 465,351 shares in 2011 and 2010	(2,781)	(2,781)
Accumulated other comprehensive income (loss)	218	(193)



Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Total stockholders' equity	183,790	167,103
Total liabilities and stockholders' equity	\$ 294,611	\$ 240,710

See accompanying notes.

F-3

---

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

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues from services	\$ 188,700	\$ 135,796	\$ 81,344
Revenues from infrastructure solutions	85,491	92,021	88,817
<b>Total revenues</b>	<b>274,191</b>	<b>227,817</b>	<b>170,161</b>
Costs and operating expenses:			
Costs from services	131,329	99,424	60,995
Costs from infrastructure solutions	70,423	75,974	73,877
Selling and marketing	18,015	14,977	12,985
Research and development	4,304	3,342	2,392
General and administrative	30,038	23,957	15,954
Earn-out fair value adjustments	4,824	178	
<b>Total costs and operating expenses</b>	<b>258,933</b>	<b>217,852</b>	<b>166,203</b>
Income from operations	15,258	9,965	3,958
Other income (expense):			
Interest income	186	386	534
Interest expense	(410)	(106)	
Income before income taxes	15,034	10,245	4,492
Provision for income taxes	6,046	2,343	1,193
<b>Net income</b>	<b>\$ 8,988</b>	<b>\$ 7,902</b>	<b>\$ 3,299</b>
Basic net income per common share	\$ 0.42	\$ 0.38	\$ 0.16
Diluted net income per common share	\$ 0.41	\$ 0.38	\$ 0.16
Weighted-average shares used in the calculation of basic net income per common share	21,332	20,560	20,219
Weighted-average shares used in the calculation of diluted net income per common share	22,026	20,992	20,507

See accompanying notes.

**GLOBECOMM SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED JUNE 30, 2011, 2010 AND 2009**  
(In thousands)

	Common Stock		Additional	Accumulated	Other	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Deficit	Comprehensive Income (Loss)	Shares	Amount	Stockholders Equity
Balance at June 30, 2008	20,695	21	182,083	(30,547)		465	(2,781)	148,776
Proceeds from exercise of stock options	78		339					339
Stock compensation expense			2,310					2,310
Grant of restricted shares	567							
Tax benefit from stock compensation plan			4					4
Comprehensive income: Net income				3,299				3,299
Foreign currency translation					84			84
Total comprehensive income								3,383
Balance at June 30, 2009	21,340	21	184,736	(27,248)	84	465	(2,781)	154,812
Proceeds from exercise of stock options	166		1,077					1,077
Stock compensation expense			2,349					2,349
Grant of restricted shares	376	1						1
Tax benefit from stock compensation plan			4					4
Proceeds from sale of common stock	65		497					497
Grant of shares for Telaurus earn-out	104		738					738
Comprehensive income: Net income				7,902				7,902
Foreign currency translation					(277)			(277)
Total comprehensive income								7,625
Balance at June 30, 2010	22,051	22	189,401	(19,346)	(193)	465	(2,781)	167,103

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Proceeds from exercise of stock options	325		1,991					1,991
Stock compensation expense			3,679					3,679
Grant of restricted shares	439	1						1
Tax benefit from stock compensation plan			45					45
Grant of shares for Telaurus earn-out	113		896					896
Grant of warrants for Telaurus earn-out			676					676
Comprehensive income:								
Net income				8,988				8,988
Foreign currency translation					411			411
Total comprehensive income								9,399
Balance at June 30, 2011	22,928	\$ 23	\$ 196,688	\$ (10,358)	\$ 218	465	\$ (2,781)	\$ 183,790

See accompanying notes.

F-5

---

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

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Operating Activities:</b>			
Net income	\$ 8,988	\$ 7,902	\$ 3,299
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,703	7,479	5,968
Provision for doubtful accounts	949	1,017	857
Deferred income taxes	5,226	1,981	1,077
Stock compensation expense	3,679	2,349	2,310
Tax benefit from stock compensation plan	45	4	4
Earn-out fair value adjustments	4,824	178	
Changes in operating assets and liabilities (net of impact of acquisitions):			
Accounts receivable	(8,618)	(1,092)	9,644
Inventories	(463)	(17,086)	(25)
Prepaid expenses and other current assets	(2,242)	(331)	(734)
Other assets	86	(719)	(343)
Accounts payable	(6,114)	11,251	(6,513)
Deferred revenues	1,091	(3,053)	(4,790)
Accrued payroll and related fringe benefits	(12)	1,819	(1,860)
Other accrued expenses	112	1,937	248
Other liabilities	(748)	(76)	(131)
Net cash provided by operating activities	16,506	13,560	9,011
<b>Investing Activities:</b>			
Purchases of fixed assets	(9,363)	(8,772)	(4,336)
Acquisition of businesses, net of cash received	(19,070)	(13,901)	(12,383)
Cash payment for Telaurus earn-out	(586)	(353)	
Cash payment for C2C earn-out	(4,500)		
Restricted cash	5,025	(5,000)	
Net cash used in investing activities	(28,494)	(28,026)	(16,719)
<b>Financing Activities:</b>			
Proceeds from exercise of stock options	1,991	1,077	339
Borrowings under C2C acquisition loan		12,500	
Borrowings under ComSource acquisition loan	18,000		
Proceeds from sale of common stock		497	
Repayments of debt	(3,100)	(625)	
Net cash provided by financing activities	16,891	13,449	339

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Effect of foreign currency translation on cash	198	(154)	4
Net increase (decrease) in cash and cash equivalents	5,101	(1,171)	(7,365)
Cash and cash equivalents at beginning of year	42,863	44,034	51,399
Cash and cash equivalents at end of year	\$ 47,964	\$ 42,863	\$ 44,034
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest	\$ 364	\$ 75	\$
Cash paid for income taxes	630	416	179

See accompanying notes.

F-6

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011**

**1. Organization and Description of Business**

Globecomm Systems Inc. ( Globecomm ) was incorporated in the State of Delaware on August 17, 1994. The Company's core business provides end-to-end, value-added satellite-based communications solutions. This business supplies infrastructure solutions for satellite-based communications including hardware and software to support a wide range of satellite systems. The Company's wholly-owned subsidiaries, Globecomm Network Services Corporation ( GNSC ), Globecomm Services Maryland LLC ( GSM ), Cachendo LLC ( Cachendo ), B.V. Mach 6 ( Mach 6 ), Telaurus Communications LLC ( Telaurus ), Melat Networks Inc. ( Melat ), Evolution Communications Group Limited B.V.I. ( Evocomm ), Carrier to Carrier Telecom B.V. ( C2C ), Evosat SA Proprietary Ltd ( Evosat ) and ComSource Inc. ( ComSource ) provide satellite communication services capabilities.

**2. Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries, GNSC, GSM, Cachendo, Mach 6, Telaurus, Melat, Evocomm, C2C, Evosat and ComSource (collectively, the Company ). All significant intercompany balances and transactions have been eliminated in consolidation.

*Accounting Estimates*

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

*Revenue Recognition*

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

Company will defer recognition of revenues, determined on a contract-by-contract basis equal to the estimated value of the installation

F-7

---



**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**2. Significant Accounting Policies (continued)**

services. Payments received in advance by customers are deferred until shipment and are presented as deferred revenues in the accompanying consolidated balance sheets.

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

Revenues from services consist of the access, hosted and lifecycle support service lines 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 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. Satellite space segment charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of services to and from the satellites leased from operators. Network operations expenses consist primarily of costs associated with the operation of the Network Operation Centers, on a 24 hour a day, seven-day a week basis, including personnel and related costs and depreciation.

*Costs from Infrastructure Solutions*

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

*Research and Development*

Research and development expenditures are expensed as incurred.

*Inventories*

Inventories, which consist primarily of work-in-progress from costs incurred in connection with specific customer contracts, are stated at the lower of cost (using the first-in, first-out method of accounting) or market value. Progress payments received under long-term contracts are netted against inventories.

*Cash Equivalents*

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

F-8

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**2. Significant Accounting Policies (continued)**

*Fixed Assets*

Fixed assets are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized and repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Amortization of leasehold improvements and leased equipment is calculated using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

*Stock-Based Compensation*

The measurement of stock-based compensation expense is based on the fair value of the award at the date of the grant. Stock-based compensation expense is generally recognized over the vesting period.

The fair value of options granted under the Company's 1997 and 2006 Plans was estimated at date of grant using a Black-Scholes option pricing model with the following assumptions for the years ended June 30, 2011, 2010 and 2009: weighted average risk-free interest rate of 1.4% (2011), 1.7% (2010) and 1.6% (2009), weighted average volatility factor of the expected market price of the Company's common stock of .57 (2011), .56 (2010) and .53 (2009), no dividend yields and a weighted-average expected life of the options of four years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and forfeiture rates.

*Goodwill and Other Intangible Assets*

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. Goodwill and other indefinite life intangible assets are tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The Company performs the goodwill impairment test annually in the fourth quarter. There have been no events in the year ended June 30, 2011 that would indicate that goodwill and indefinite life intangible assets were impaired.

*Long-Lived Assets*

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

to sell. No impairment was noted on the long-lived assets at June 30, 2011 and 2010.

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

F-9

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**2. Significant Accounting Policies (continued)**

*Income Taxes*

*Deferred Tax Assets*

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

*Uncertainty in Tax Positions*

The Company recognizes in its financial statements the benefits of tax return positions if that tax position is more likely than not to be sustained on audit based on its technical merits. At June 30, 2011, the Company had a liability for unrecognized tax benefits of approximately \$1,420,000, which, if recognized in the future, would favorably impact the Company's effective tax rate. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that none of these tax positions will be resolved within the next twelve months. The Company records both accrued interest and penalties related to income tax matters, if any, in the provision for income taxes in the accompanying consolidated statements of operations. As of June 30, 2011, 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 fiscal 2008 through 2011 years remain subject to examination. The Company files returns in numerous state jurisdictions with varying statutes of limitation.

*Product Warranties*

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

*Foreign Exchange Contracts*

In January 2010, the Company entered into foreign currency forward exchange contracts to purchase approximately 2.3 million Euros (approximately \$3.3 million) to cover specific purchase commitments for

F-10

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**2. Significant Accounting Policies (continued)**

an infrastructure program. In July 2010, October 2010 and January 2011, the Company purchased approximately 1.0 million, 0.1 million, and 1.2 million Euros, respectively, under these forward exchange contracts. As a result, the Company has no forward exchange contracts outstanding as of June 30, 2011. As the contracts did not qualify for hedge accounting, the Company recorded approximately \$515,000 of gain and \$494,000 loss in general and administrative expense in the years ended June 30, 2011 and 2010, respectively, to adjust these contracts to market value.

*Restricted Cash*

Restricted cash primarily consisted of cash held in escrow for potential earn-out payments to previous owners of C2C and Evocomm if certain earnings milestones were reached.

*Comprehensive Income*

Comprehensive income for the years ended June 30, 2011 and 2010 of approximately \$9,399,000 and \$7,625,000 includes a foreign currency translation gain (loss) of approximately \$411,000 and \$(277,000), respectively.

*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 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 resulted in the inclusion of acquisition related costs of \$468,000 and \$940,000 in general and administrative expenses in the year ended June 30, 2011 and 2010, respectively.

In October 2009, the FASB issued Accounting Standards Update No. 2009- 13, Multiple-Deliverable Revenue Arrangements ( ASU 2009-13 ) which updates ASC Topic 605-25, Revenue Recognition Multiple element arrangements, of the FASB codification. ASU 2009-13 provides new guidance on how to determine if an arrangement involving multiple deliverables contains more than one unit of accounting, and if so allows companies to allocate arrangement considerations in a manner more consistent with the economics of the transaction. ASU 2009-13 was effective for the Company for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this pronouncement did not have a material impact on the Company's financial condition or results of operations for the year ended June 30, 2011.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements ( ASU 2010-06 ). ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. This update did not

have a material impact on the Company's fair value disclosures.

In April 2010, the FASB issued ASU 2010-13, Compensation - Stock Compensation (Topic 718) - Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market

F-11

---



**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**2. Significant Accounting Policies (continued)**

in Which the Underlying Equity Security Trades (A Consensus of the FASB Emerging Issues Task Force) ( ASU 2010-13 ). ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. This clarification of existing practice is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. The adoption of this pronouncement will not have a material impact on the Company s consolidated financial condition or results of operations.

**3. Acquisitions**

*ComSource*

The Company entered into an Agreement and Plan of Merger effective as of April 8, 2011 with ComSource Inc. ( ComSource ). Pursuant to the agreement, a newly-formed subsidiary of the Company merged with and into ComSource in exchange for an initial cash purchase price of \$19.9 million, funded through \$1.9 million of existing cash and \$18.0 million through the ComSource Acquisition Loan (as defined below). To the extent that working capital at the effective date is less or more than \$400,000, there may be a post-closing adjustment to the purchase price.

Former ComSource shareholders are also entitled to receive additional cash payments of up to an aggregate of \$21.0 million, subject to an earn-out based upon the acquired business achieving certain earnings milestones within 24 months following the closing. The Company has estimated the fair value of the earn-out to be \$16.2 million as of the acquisition date, calculated using a discounted cash flow method, which has been recorded in the consolidated balance sheet. As of June 30, 2011 the fair value of the earn-out is estimated at \$16.6 million.

ComSource employs 50 staff and provides independent testing and evaluation of a variety of telecommunications equipment and related recurring long term application support, including new feature sets. Client testing includes basic performance, data assurance, reliability and system security. The acquisition of ComSource provided the Company with further entry into the growing wireless market.

The Company has accounted for the acquisition as a purchase under the purchase method of accounting. The assets and liabilities of ComSource were recorded as of the acquisition date at their respective fair values and consolidated with those of the Company. The excess of the purchase price over the net assets acquired was recorded as goodwill of approximately \$29,577,000. This amount will be adjusted once the working capital post-closing adjustment described above is finalized with the Seller. The goodwill and intangible assets are not deductible for income tax purposes.

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**3. Acquisitions (continued)**

The purchase price allocation was as follows (in thousands):

Cash and cash equivalents	\$	813
Total other current assets		8,964
Fixed assets		1,936
Other assets		105
Goodwill		29,577
Customer relationships		8,600
Contracts backlog		700
Trademarks		300
Liabilities		(14,913)
 Total Purchase Price	 \$	 36,082

The ComSource acquisition contributed approximately \$3.9 million and \$0.3 million of revenue and loss before taxes, respectively, for the year ended June 30, 2011.

The following unaudited pro forma information assumes that the acquisition of ComSource occurred on July 1, 2009, after giving effect to certain adjustments, including amortization of intangibles, increased interest expense on the ComSource Acquisition Loan, decreased interest income due to use of cash to partially fund the acquisition, and income tax adjustments. The pro forma results are not necessarily indicative of the results of operations that would actually have occurred had the transaction taken place on the date indicated or of the results that may occur in the future:

	<b>Years Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2011</b>	<b>2010</b>
	<b>(in thousands, except share data)</b>	
	<b>(unaudited)</b>	
Revenues	\$ 285,137	\$ 240,796
Net income	\$ 9,145	\$ 7,136
Basic net income per common share	\$ 0.43	\$ 0.35
Diluted net income per common share	\$ 0.42	\$ 0.34

*C2C and Evocomm*

On March 5, 2010, the Company, acting through its indirect wholly-owned subsidiaries Globecomm Holdings B.V. and Globecomm (BVI) Ltd, acquired from Carrier to Carrier Telecom Holdings Ltd (the Carrier Seller), a privately owned company, all of the issued shares of Carrier to Carrier Telecom B.V. (C2C), a company incorporated in the Netherlands, and the business assets of Evocomm Communications Limited, or Evocomm, each of C2C and Evocomm being a wholly-owned subsidiary of the Carrier Seller. Pursuant to the terms of the acquisition the Company also acquired from Evocomm all the issued shares of Evosat (Pty) Ltd (Evosat), a company incorporated in South Africa.

C2C employs approximately 22 staff and provides satellite services across Africa, the Middle East, Europe and Asia, and maintains services in the Atlantic, Mediterranean, Gulf of Mexico and Indian Ocean regions through its teleport facility in the Netherlands. Evosat and Evocomm employ approximately 11

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**3. Acquisitions (continued)**

staff and provide Immarsat land-based BGAN (Broadband Global Area Networks) and maritime-based fleet broadband capabilities.

Pursuant to the terms of the acquisition agreement with Carrier Seller, the Company paid a cash purchase price of \$15.0 million (funded through \$2.5 million of the Company's current cash position and \$12.5 million through the C2C Acquisition Loan (as defined below) issued under the Company's existing credit facility). The Carrier Seller also would be entitled to receive additional cash payments of up to an aggregate of \$10.9 million, subject to an earn-out based upon the acquired businesses achieving certain earnings milestones within 24 months following the closing.

In April 2011, the former owners of C2C and Evocomm received \$4.5 million based on the results of the first twelve month earn-out period, which reduced the future potential earn-out payments to a maximum of \$5.5 million. In June 2011, the Company and the former owners of C2C and Evocomm reached a settlement agreement on the second earn-out period resulting in a \$4.5 million liability for the final earn-out as of June 30, 2011. In July 2011 the \$4.5 million was paid to the former shareholders. Adjustments to the fair value of this earn-out resulted in charges to earnings of approximately \$4,449,000 and \$178,000 in the years ended June 30, 2011 and 2010, respectively.

The Company has accounted for the acquisition as a purchase under the purchase method of accounting. The assets and liabilities of C2C and Evocomm were recorded as of the acquisition date at their respective fair values and consolidated with those of the Company. The excess of the purchase price over the net assets acquired was recorded as goodwill of approximately \$11,666,000. Since these are foreign entities, the goodwill and intangible assets are not deductible for income tax purposes.

The purchase price allocation was as follows (in thousands):

Cash and cash equivalents	\$ 1,099
Total other current assets	6,821
Fixed assets	1,828
Other assets	30
Goodwill	11,666
Customer relationships	5,705
Software	125
Contracts backlog	800
Trademarks	31
Liabilities	(8,674)
 Total Purchase Price	 \$ 19,431

The C2C and Evocomm acquisitions contributed approximately \$6.2 million and \$0.8 million of revenue and income before taxes, respectively for the year ended June 30, 2010.

The following unaudited pro forma information assumes that the acquisition of C2C and Evocomm occurred on July 1, 2008, after giving effect to certain adjustments, including amortization of intangibles, increased interest expense on the C2C Acquisition Loan, decreased interest income due to use of cash to partially fund the acquisition, and income tax adjustments. The pro forma results are not necessarily

F-14

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**3. Acquisitions (continued)**

indicative of the results of operations that would actually have occurred had the transaction taken place on the date indicated or of the results that may occur in the future:

	<b>Years Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2010</b>	<b>2009</b>
	<b>(in thousands, except share data)</b>	
	<b>(unaudited)</b>	
Revenues	\$ 242,228	\$ 187,035
Net income	\$ 8,583	\$ 4,054
Basic net income per common share	\$ 0.42	\$ 0.20
Diluted net income per common share	\$ 0.41	\$ 0.20

*Telaurus*

On May 29, 2009, the Company, acting through its wholly owned subsidiary Telaurus LLC, acquired the entire business operations of Telaurus Communications LLC (the "Telaurus Seller"), a privately owned company, including all of the issued stock of the Telaurus Seller's wholly-owned subsidiary Telaurus Communications Pte. Ltd., a company incorporated in Singapore.

Pursuant to the terms of the acquisition agreement with the Telaurus Seller, the Company acquired the entire business operations of the Telaurus Seller for a cash purchase price of \$6.1 million (funded through the Company's existing cash position). The Telaurus Seller also was entitled to receive up to 335,000 shares of the Company's common stock and up to 1,000,000 warrants to purchase shares of the Company's common stock, subject to an earn-out based upon the acquired business achieving certain earnings milestones within twelve months following the closing. Based on results of the earn-out period, which expired on May 31, 2010, the former owners of Telaurus received approximately 104,000 common shares, and approximately \$353,000 in cash on January 22, 2010, and 113,000 common shares, approximately \$586,000 in cash and 244,910 warrants to purchase common stock at an exercise price of \$10.00 on July 28, 2010. The warrants expire on July 28, 2013.

Telaurus is a service provider concentrated in the maritime sector, government and satellite service providers. Telaurus employs approximately 32 staff and has recurring service revenues in the maritime marketplace. The acquisition of Telaurus provided the Company with further entry into the growing maritime market currently being served by the Company.

The Company has accounted for the acquisition as a purchase under the purchase method of accounting. The assets and liabilities of Telaarus were recorded as of the acquisition date at their respective fair values and consolidated with those of the Company. The excess of the purchase price over the net assets acquired was recorded as goodwill and other intangible assets of approximately \$6,631,000 and is deductible for income tax purposes over 15 years.

F-15

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**3. Acquisitions (continued)**

The purchase price allocation, which includes approximately \$289,000 in transaction related costs, was as follows (in thousands):

Total current assets	\$	2,497
Fixed assets		158
Other assets		24
Goodwill		373
Customer relationships		5,025
Software		1,162
Covenant not to compete		44
Trademarks		27
Liabilities		(2,906)
 Total Purchase Price	 \$	 6,404

The Company recorded additional goodwill of approximately \$3,315,000 in the year ended June 30, 2010 related to the earn-out.

**4. Accounts Receivable**

Accounts receivable may include amounts billed but not paid by customers pursuant to retainage provisions in connection with infrastructure solutions contracts. At June 30, 2011 and 2010 there were no amounts included in accounts receivable billed but not paid by customers under retainage provisions in connection with long-term contracts.

**5. Inventories**

Inventories consist of the following:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
	<b>(In thousands)</b>	
Raw materials and component parts	\$ 1,496	\$ 1,392
Work-in-progress	43,187	34,368
	44,683	35,760
Less progress payments	2,254	1,274
	\$ 42,429	\$ 34,486





**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**6. Fixed Assets**

Fixed assets consist of the following:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>	
	<b>(In thousands)</b>		<b>Depreciable life</b>
Land	\$ 2,116	\$ 2,116	
Building and improvements	14,824	14,201	10-25 years
Computer equipment and software	7,393	5,541	3-5 years
Machinery and equipment	6,565	5,429	3-5 years
Network operations center	31,438	28,791	3-10 years
Satellite earth station equipment	22,458	18,479	10 years
Furniture and fixtures	2,377	2,024	5 years
Leasehold improvements	2,306	788	Shorter of lease term or estimated life
Construction in progress	127		
	89,604	77,369	
Less accumulated depreciation and amortization	47,457	39,530	
	\$ 42,147	\$ 37,839	

Depreciation expense of approximately \$7,118,000, \$5,994,000 and \$5,206,000 was included in the statement of operations in the years ended June 30, 2011, 2010 and 2009, respectively.

**7. Goodwill and Intangibles**

The Company performs the goodwill impairment test annually in the fourth quarter. No impairment was noted on the goodwill and indefinite life intangible assets at June 30, 2011 and 2010. The carrying value of goodwill, which relates to the services reporting unit was as follows (in thousands):

Balance at June 30, 2009	\$ 25,613
Achievement of Telaurus earn-out provision	3,315
Acquisition of C2C and Evocomm	11,666
Balance at June 30, 2010	40,594
Acquisition of ComSource	29,577
Balance at June 30, 2011	\$ 70,171



**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**7. Goodwill and Intangibles (continued)**

Intangibles subject to amortization consist of the following:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>	<b>Est. useful life</b>
	<b>(In thousands)</b>		
Customer relationships	\$ 24,879	\$ 16,279	7-18 years
Software	1,287	1,287	5 years
Contracts backlog	2,471	1,771	6 months 2 years
Covenant not to compete	125	125	3-4 years
Trademarks	382	82	5 years
	29,144	19,544	
Less accumulated amortization	6,089	3,348	
Intangibles, net	\$ 23,055	\$ 16,196	

Amortization expense of approximately \$2,585,000, \$1,485,000 and \$762,000 was included in general and administrative expenses in the years ended June 30, 2011, 2010 and 2009, respectively.

Amortization expense for the next five years related to these intangible assets is expected to be as follows (in thousands):

2012	\$ 3,644
2013	2,896
2014	2,871
2015	2,578
2016	2,228

**8. Long Term Debt**

As of June 30, 2011 debt consisted of the following (in thousands):

C2C Acquisition Loan	\$ 9,375
ComSource Acquisition Loan	\$ 17,400
Total debt	\$ 26,775
Less current portion	6,100

Long term debt

\$ 20,675

*C2C Acquisition Loan*

The purchase of C2C and Evocomm was funded, in part, through a five-year \$12,500,000 acquisition term loan ( C2C Acquisition Loan ) provided by Citibank, N.A on March 5, 2010, under the Company s existing credit facility. The C2C Acquisition Loan bears interest at the prime rate or LIBOR plus 250 basis points, at the Company s discretion. The balance is to be paid in equal monthly installments, excluding interest, of approximately \$208,333 beginning on April 1, 2010. The interest rate in effect as of June 30, 2011 was approximately 2.8%. At June 30, 2011, \$9,375,000 was outstanding of which \$2,500,000 was due within one year. The Company is required to comply with various ongoing financial covenants described below, with which the Company was in compliance as of June 30, 2011.

F-18

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**8. Long Term Debt (continued)**

*ComSource Acquisition Loan*

The purchase of ComSource was funded, in part, through a five-year \$18,000,000 acquisition term loan ( ComSource Acquisition Loan ) provided by Citibank, N.A on April 7, 2011. The ComSource Acquisition Loan bears interest at the prime rate or LIBOR plus 250 basis points, at the Company's discretion. The balance is to be paid in equal monthly installments, excluding interest, of \$300,000 beginning on May 1, 2011. The interest rate in effect as of June 30, 2011 was approximately 2.7%. At June 30, 2011, \$17,400,000 was outstanding of which \$3,600,000 was due within one year. The Company is required to comply with various ongoing financial covenants described below, with which the Company was in compliance as of June 30, 2011.

*Line of Credit*

On May 28, 2010, the Company entered into Amendment No. 4 to the committed secured credit facility with Citibank. The credit facility was extended and expired on July 31, 2011. The credit facility was comprised of a \$65 million line of credit (the 2010 Line ) and a foreign exchange line in the amount of \$15 million. The 2010 Line included 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 term loans, each having a term of no more than five years, in the aggregate amount of up to \$40 million that can be used for acquisitions; and (d) \$10 million available for revolving credit borrowings.

On July 18, 2011, the Company entered into a new secured credit facility with Citibank which expires October 31, 2014 (replacing the 2010 Line). The credit facility is comprised of a \$72.5 million line of credit (the 2011 Line ) which includes the following sublimits: (a) \$30 million available for standby letters of credit; (b) \$10 million available for commercial letters of credit; (c) a line for term loans, each having a term of no more than five years, in the aggregate amount of up to \$50 million that can be used for acquisitions; and (d) \$15 million available for revolving credit borrowings. The Company is required to pay a commitment fee on the average daily unused portion of the total commitment based on the Company's consolidated leverage ratio (currently 25 basis points per annum) payable quarterly in arrears starting September 30, 2011.

At the discretion of the Company, advances under the 2011 Line bear interest at the prime rate or LIBOR plus applicable margin based on the Company's consolidated leverage ratio and are collateralized by a first priority security interest on all of the personal property of the Company. At June 30, 2011, the applicable margin on the LIBOR rate was 250 basis points. The Company is required to comply with various ongoing financial covenants, including with respect to the Company's leverage ratio, minimum cash balance, fixed charge coverage ratio and EBITDA minimums, with which the Company was in compliance at June 30, 2011. As of June 30, 2011, in addition to the C2C Acquisition Loan and ComSource Acquisition Loan described above there were standby letters of credit of approximately \$6.9 million, which were applied against and reduced the amounts available under the credit facility.

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

2012

\$ 6,100

2013	6,100
2014	6,100
2015	5,475
2016	3,000

F-19

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**9. Stock Incentive and Stock Purchase Plans**

On November 22, 2006, the Company's Board of Directors authorized, and the stockholders subsequently approved, the 2006 Stock Incentive Plan ( 2006 Plan ), which provides for grants of stock options or restricted stock awards to employees, directors and consultants of the Company for an aggregate of 850,000 shares of the Company's common stock. In November 2009, the Company's stockholders approved an amendment to the 2006 Plan whereby the number of shares authorized for issuance under the 2006 Plan increased by 1,500,000. At June 30, 2011 there were 571,968 shares available for grant under the 2006 Plan.

On February 26, 1997, the Company's Board of Directors authorized, and the stockholders subsequently approved, the 1997 Stock Incentive Plan ( 1997 Plan ), which authorized the granting to employees, directors and consultants of the Company options to purchase an aggregate of 2,280,000 shares of the Company's common stock. In November 2000 and 2001, the Company's stockholders approved amendments to the 1997 Plan whereby the number of shares authorized for issuance under the 1997 Plan increased by 800,000 shares in fiscal 2001 and 2002. In November 2004, the Company's stockholders approved amendments to the 1997 Plan whereby the number of shares authorized for issuance under the 1997 Plan increased by 1,000,000 shares. On November 22, 2006, the Company terminated the 1997 Plan and cancelled all remaining unissued shares totaling approximately 1,311,000. No new options can be granted from the 1997 Plan.

Options granted under the 1997 Plan and 2006 Plan may be either incentive or non-qualified stock options. The exercise price of an option shall be determined by the Company's Board of Directors or compensation committee of the board at the time of grant, however, in the case of an incentive stock option the exercise price may not be less than 100% of the fair market value of such stock at the time of the grant, or less than 110% of such fair market value in the case of options granted to a 10% owner of the Company's stock.

Employee options generally vest annually in equal installments over a four-year period and expire on the tenth anniversary of the date of grant. Director options granted upon initial election to the Board of Directors vest one third on the grant date and an additional one third on each of the next two succeeding anniversaries of the date of grant. Each additional annual grant vests immediately. All director options expire the earlier of ten years from the date of grant or one year from concluding service as a director of the Company. Restricted stock awards generally vest annually in equal installments over a three-year period. One restricted grant of 202,000 shares (granted in February 2009) vested one third on the grant date and an additional one third on each of the next two succeeding anniversaries of the date of grant.



**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**9. Stock Incentive and Stock Purchase Plans (continued)**

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

	2011		Years Ended June 30, 2010		2009	
	Shares Under Option	Weighted-Average Exercise Price	Shares Under Option	Weighted-Average Exercise Price	Shares Under Option	Weighted-Average Exercise Price
Balance, beginning of year	1,125	\$ 6.53	1,528	\$ 8.42	1,655	\$ 8.38
Grants	65	10.18	33	7.51	76	5.57
Exercised	(325)	6.13	(166)	6.48	(78)	4.33
Canceled	(93)	10.46	(270)	17.39	(125)	8.78
Balance, end of year	772	6.53	1,125	6.53	1,528	8.42
Exercisable, end of year	706	\$ 6.23	1,069	\$ 6.42	1,437	\$ 8.38
Weighted-average fair value options granted during the year		\$ 4.56		\$ 3.33		\$ 2.43

The following table summarizes information about stock options outstanding at June 30, 2011 (in thousands, except per share amounts):

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	
\$1.47 - \$3.14	3	2.4	\$ 1.80	3	\$ 1.80	
\$3.35 - \$5.16	312	2.4	3.87	307	3.86	
\$5.29 - \$8.26	281	4.4	6.50	260	6.47	
\$8.31 - \$12.88	111	7.9	9.97	73	9.13	
\$13.01 - \$21.00	65	6.1	13.67	63	13.63	
	772	4.2	\$ 6.53	706	\$ 6.23	

Restricted shares and restricted stock units granted under the 2006 Plan totaled 426,000, 398,000, and 587,000 shares in the years ended June 30, 2011, 2010 and 2009, respectively. The weighted average grant date fair value of restricted shares and restricted stock units granted during the years ended June 30, 2011, 2010 and 2009 was \$7.06, \$7.60 and \$6.26. As of June 30, 2011 there was approximately \$3,695,000 of unrecognized compensation cost related to non-vested stock-based compensation related to the restricted shares and restricted share units. The cost is expected to be recognized over a weighted-average period of 1.8 years. As of June 30, 2011 there was approximately \$240,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 3.1 years.

The Company has reserved approximately 1,816,000 shares of its common stock for issuance upon exercise of all available and outstanding options, warrants, and unvested restricted shares and restricted share units at June 30, 2011.

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**10. 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 net income per common share, the weighted average shares include the incremental common shares issuable upon the exercise of stock options and warrants and unvested restricted shares and restricted stock units (using the treasury stock method). The incremental common shares for stock options, warrants and unvested restricted shares and restricted stock units are excluded from the calculation of diluted net income per share, if their effect is anti-dilutive. Diluted net income per share for the years ended June 30, 2011, 2010 and 2009, excludes the effect of approximately 109,000, 418,000, and 967,000 stock options, warrants and unvested restricted shares and restricted stock units in the calculation of the incremental common shares, respectively, as their effect would have been anti-dilutive.

**11. Fair Value Measurements**

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

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

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

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

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

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

There were no transfers in or out of Level 1 and 2 in the year ended June 30, 2011.

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

The fair value of the earn-out liabilities related to acquisitions are calculated using a discounted cash flow method based on unobservable inputs including projected EBITDA of the acquired entities and discount rates and are classified within Level 3 of the valuation hierarchy.

At June 30, 2011, the book value of the Company's \$26,775,000 of debt approximates fair value based upon its variable interest rate.

## **12. Retirement Plan**

The Company maintains a 401(k) plan, which covers substantially all employees of the Company. Participants may elect to contribute from 1% to 75% of their pre-tax compensation, subject to elective deferral limitations under Section 403 of the Internal Revenue Code. The plan allows for a matching

F-22

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**12. Retirement Plan (continued)**

contribution equal to the discretionary percentage of a participating employee not to exceed 4% of their compensation by the Company. Effective January 1, 2009, 2010 and 2011 the Company changed the matching contribution to a maximum of 4% of their compensation not to exceed \$2,500, \$3,500 and \$5,500, respectively per employee per calendar year. The Company contributed approximately \$828,000, \$581,000, and \$667,000 to the 401(k) plan during the years ended June 30, 2011, 2010 and 2009, respectively. In addition, the plan also provides for discretionary profit sharing contributions by the Company. There were no discretionary profit sharing contributions made by the Company during the years ended June 30, 2011, 2010 and 2009.

**13. Income Taxes**

The components of income before taxes are as follows:

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		
United States	13,602	9,398	5,134
Foreign	1,432	847	(642)
<b>Total</b>	<b>15,034</b>	<b>10,245</b>	<b>4,492</b>

During fiscal 2011, 2010 and 2009, the Company recorded a tax provision of approximately \$6,046,000, \$2,343,000, and \$1,193,000 respectively. Information pertaining to the Company's provision (benefit) for income taxes is as follows:

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		
<b>Current:</b>			
Federal	\$ 274	\$ 112	\$ 113
State	270	74	3
Foreign	276	176	
	820	362	116
<b>Deferred:</b>			
Federal	5,418	1,342	1,276
State	95	716	(35)
Foreign	(287)	(77)	(164)
	5,226	1,981	1,077

Total provision for income taxes	\$ 6,046	\$ 2,343	\$ 1,193
----------------------------------	----------	----------	----------

The Company computes income taxes using the liability method. Accordingly, deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to the differences between the carrying amount of the assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities are determined by using enacted tax laws and rates in effect when the differences are expected to reverse. Net deferred tax assets are recorded when it is more likely than not that such tax benefits will be realized.

F-23

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**13. Income Taxes (continued)**

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

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
	<b>(In thousands)</b>	
Deferred tax assets:		
Domestic net operating loss carryforwards	\$ 8,899	\$ 12,956
Foreign net operating loss carryforwards	70	51
Accruals and reserves	3,822	2,509
Write-down of investments	383	383
AMT tax credit	1,066	797
Research and development credit	3,391	2,531
Projects in progress	385	580
	18,016	19,807
Valuation allowance	(7,529)	(6,698)
	10,487	13,109
Deferred tax liabilities:		
Depreciation	(5,100)	(3,133)
Intangible assets	(7,339)	(2,942)
Net deferred tax (liabilities) assets	\$ (1,952)	\$ 7,034

For the year ended June 30, 2011, the Company's deferred tax asset valuation allowance increased by approximately \$831,000 primarily related to excess stock based compensation deduction for which no benefit has been provided. In addition, the Company recorded a deferred tax liability of \$3,746,000 in connection with the acquisition of ComSource with an offsetting amount recorded to goodwill.

As of June 30, 2011, the deferred tax asset valuation allowance of approximately \$7,529,000 relates to the following: federal and state net operating losses related to excess stock based compensation expense deductions of approximately \$7,076,000; write-down of investments of approximately \$383,000; and foreign net operating losses for which no benefit has been provided of approximately \$70,000. If the remaining valuation allowance were to be reversed, approximately \$7,076,000 would be allocated to additional paid-in-capital as such amounts are attributable to the tax effects of excess compensation deductions from exercises of employee stock options and the remainder would reduce income tax expense.

As of June 30, 2011, the Company had federal net operating loss carryforwards of approximately \$24,794,000 which will expire at various dates beginning in 2020 through 2026, if not utilized. The Company also had various tax credits of approximately \$5,878,000 including approximately \$4,812,000 for research and development tax credits expiring at

various dates beginning in 2021 through 2024 and approximately \$1,066,000 for alternative minimum tax credits which may be carried forward indefinitely. The Company's state NOLs expire at various dates beginning in 2022.

Federal income and foreign withholding taxes have not been provided on approximately \$2,689,000 of undistributed earnings of international subsidiaries at June 30, 2011. The Company intends to reinvest these earnings in its foreign operations indefinitely, except where it is able to repatriate these earnings to the United States without material incremental tax provision. The determination and estimation of the future income tax consequences in all relevant taxing jurisdictions involves the application of highly complex tax laws in the countries involved, particularly in the United States, and is based on the tax profile of the



**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**13. Income Taxes (continued)**

Company in the year of earnings repatriation. Accordingly, it is not practicable to determine the amount of tax associated with such undistributed earnings. The Company has foreign net operating loss carryforwards of \$272,000 which do not expire.

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

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
U.S. Federal statutory rate	35%	35%	35%
Research and development credit	(6)	(21)	(9)
State and local taxes	2	8	
Earn-out fair value adjustments	11	1	
Foreign taxes	(4)	(3)	
Other	2	3	1
	40%	23%	27%

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties is as follows:

	<b>Years Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2011</b>	<b>2010</b>
Balance at beginning of year	\$ 1,085	\$ 106
Additions based on tax positions taken	335	979
Balance at end of year	\$ 1,420	\$ 1,085

At June 30, 2011, the Company had a liability for unrecognized tax benefits of approximately \$1,420,000, which, if recognized in the future, would favorably impact the Company's effective tax rate. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that none of these tax positions will be resolved within the next twelve months. The Company records both accrued interest and penalties related to income tax matters, if any, in the provision for income taxes in the accompanying consolidated statements of operations. As of June 30, 2011, the Company had not accrued any amounts for the potential payment of penalties and interest.

The Company has identified the following jurisdictions as major jurisdictions: U.S. Federal, Maryland, New York and Virginia. The Company's U.S. Federal and state jurisdictions remain open for the fiscal years ended 2008 through 2011.

#### **14. Segment Information**

The Company operates through two business segments. Its services segment, through GNCS, GSM, Cachendo, Mach 6, Telaurus, Melat, Evocomm, C2C, Evosat and ComSource provides satellite communication services capabilities. Its infrastructure solutions segment, through Globecomm Systems Inc., is engaged in the design, assembly and installation of ground segment systems and networks.

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

F-25

---

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**14. Segment Information (continued)**

The following is the Company's business segment information for the years ended June 30, 2011, 2010 and 2009 and as of June 30, 2011 and 2010:

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		
Revenues:			
Services	\$ 191,147	\$ 136,334	\$ 81,685
Infrastructure solutions	85,649	92,851	89,122
Intercompany eliminations	(2,605)	(1,368)	(646)
Total revenues	\$ 274,191	\$ 227,817	\$ 170,161
Income (loss) from operations:			
Services	\$ 21,896	\$ 16,521	\$ 9,881
Infrastructure solutions	(6,640)	(6,389)	(5,999)
Interest income	186	386	534
Interest expense	(410)	(284)	
Intercompany eliminations	2	11	76
Income before income taxes	\$ 15,034	\$ 10,245	\$ 4,492
Depreciation and amortization:			
Services	\$ 7,976	\$ 5,631	\$ 3,946
Infrastructure solutions	1,750	1,882	2,068
Intercompany eliminations	(23)	(34)	(46)
Total depreciation and amortization	\$ 9,703	\$ 7,479	\$ 5,968

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		
Expenditures for fixed assets:			
Services	\$ 7,971	\$ 7,973	\$ 3,314
Infrastructure solutions	1,392	799	1,022
Total expenditures for fixed assets	\$ 9,363	\$ 8,772	\$ 4,336

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
	<b>(In thousands)</b>	
Assets:		
Services	\$ 203,127	\$ 130,866
Infrastructure solutions	217,524	207,053
Intercompany eliminations	(126,040)	(97,209)
Total assets	\$ 294,611	\$ 240,710

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**14. Segment Information (continued)**

At June 30, 2011, the Company had total foreign assets of approximately \$15,757,000 including cash and cash equivalents of approximately \$2,994,000 and long lived assets of approximately \$2,678,000 located in the Netherlands, South Africa, British Virgin Islands, Afghanistan and Gibraltar, associated with its wholly-owned subsidiaries, Mach 6, C2C, Evocomm, Evosat and Melat.

**15. Significant Customers and Concentrations of Credit Risk**

The Company provides services and provides infrastructure solutions for customers in diversified geographic locations. Credit risk with respect to accounts receivable is concentrated due to the limited number of customers. The timing of cash realization is determined based upon the contract or service agreements with the customers. The Company performs ongoing credit evaluations of its customers' financial condition and in some cases requires a letter of credit or cash in advance for foreign customers. The Company evaluates the collectibility of accounts receivable based on numerous factors, including past transaction history with customers and their credit worthiness. The Company's estimate of its allowance for doubtful accounts is periodically adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations, or as a result of changes in the overall aging of accounts receivable. Allowances related to accounts receivable at June 30, 2011 and 2010, were approximately \$2,064,000, and \$1,988,000, respectively.

For the year ended June 30, 2011, one customer accounted for 19% of the Company's consolidated revenues and for the years ended June 30, 2010 and 2009, one customer accounted for 12% of the Company's consolidated revenues.

Revenues earned from services are attributed to the geographic location in which the services are being provided. Revenues earned from infrastructure solutions are attributed to the geographic location to which the equipment is shipped. Revenues attributed to the United States for the years ended June 30, 2011, 2010 and 2009 were 41%, 42% and 51%, respectively. Revenues from foreign sales as a percentage of total consolidated revenues are as follows:

	<b>Years Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Africa	6%	9%	6%
North and South America	3%	3%	4%
Asia	6%	6%	9%
Europe	8%	12%	6%
Middle East	36%	28%	24%
	59%	58%	49%

The Company places its cash and cash equivalents with high quality financial institutions. Approximately 90% and 92% of all cash and cash equivalents are held in one financial institution at June 30, 2011 and 2010, respectively. Cash and cash equivalents is in excess of Federal Deposit Insurance Company insurance limits.



**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**16. Commitments and Contingencies**

*Lease Commitments*

The Company currently leases satellite space segment services, office and warehouse space, teleport services and other equipment under various operating leases, which expire in various years through 2017. As leases expire, it can be expected that in the normal course of business they will be renewed or replaced.

Future minimum lease payments under non-cancelable operating leases with terms of one year or more consist of the following at June 30, 2011 (in thousands):

2012	\$	36,755
2013		14,894
2014		9,754
2015		6,886
2016		1,539
Thereafter		763
	\$	70,591

Rent expense for satellite space segment services, office and warehouse space, teleport services, and other equipment was approximately \$40,494,000, \$30,428,000 and \$21,091,000 for years ended June 30, 2011, 2010 and 2009, respectively.

**GLOBECOMM SYSTEMS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**17. Quarterly Information (unaudited)**

The following tables set forth unaudited consolidated financial information for each of the eight fiscal quarters in the period ended June 30, 2011.

	<b>June 30, 2011</b>	<b>Mar. 31, 2011</b>	<b>Dec. 31, 2010</b>	<b>Three Months Ended,</b>			<b>Mar. 31, 2010</b>	<b>Dec. 31, 2009</b>	<b>Sept. 30, 2009</b>
				<b>Sept. 30, 2010</b>	<b>June 30, 2010</b>				
	<b>(In thousands, except per share data)</b>								
<b>Statement of Operations Data:</b>									
Revenues from services	\$ 52,541	\$ 45,963	\$ 47,264	\$ 42,932	\$ 39,600	\$ 34,018	\$ 33,570	\$ 28,608	
Revenues from infrastructure solutions	35,720	16,520	22,980	10,271	30,659	18,782	23,512	19,068	
Total revenues	88,261	62,483	70,244	53,203	70,259	52,800	57,082	47,676	
Costs and operating expenses:									
Costs from services	35,561	31,691	33,718	30,359	28,517	24,822	25,483	20,602	
Costs from infrastructure solutions	30,350	12,866	19,091	8,116	25,488	14,853	19,838	15,795	
Selling and marketing	5,087	4,251	4,639	4,038	4,161	3,943	3,671	3,202	
Research and development	1,572	723	910	1,099	1,069	760	762	751	
General and administrative	9,505	7,547	6,875	6,111	6,748	6,478	5,216	5,515	
Earn-out fair value adjustments	2,275	400	2,012	137	155	23			
Total costs and operating expenses	84,350	57,478	67,245	49,860	66,138	50,879	54,970	45,865	
Income from operations	3,911	5,005	2,999	3,343	4,121	1,921	2,112	1,811	
Other income (expense):									



Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

Interest income	42	44	42	58	60	58	133	135
Interest expense	(192)	(69)	(70)	(79)	(79)	(27)		
Income before income taxes	3,761	4,980	2,971	3,322	4,102	1,952	2,245	1,946
Provision for income taxes	1,603	1,992(b)	1,262(b)	1,189	87(a)	707	844	705
Net income	\$ 2,158	\$ 2,988	\$ 1,709	\$ 2,133	\$ 4,015	\$ 1,245	\$ 1,401	\$ 1,241
Basic net income per common share	\$ 0.10	\$ 0.14	\$ 0.08	\$ 0.10	\$ 0.19	\$ 0.06	\$ 0.07	\$ 0.06
Diluted net income per common share	\$ 0.10	\$ 0.14	\$ 0.08	\$ 0.10	\$ 0.19	\$ 0.06	\$ 0.07	\$ 0.06
Weighted-average shares used in the calculation of basic net income per common share	21,642	21,442	21,218	21,032	20,842	20,601	20,437	20,363
Weighted-average shares used in the calculation of diluted net income per common share	22,459	22,104	21,827	21,543	21,318	21,030	20,840	20,788

(a) In the fourth quarter of the year ended June 30, 2010, upon the completion of analysis, the Company recorded \$1,454,000 for a non-recurring tax benefit which primarily relates to research and development tax credits for fiscal years 2006 through 2009.

(b) In the second and third quarters of the year ended June 30, 2011, upon the completion of analysis, the Company recorded \$335,000 and \$323,000, respectively, for a non-recurring tax benefit which relates to research and development tax credits for fiscal years 2005 and 2010.

## GLOBECOMM SYSTEMS INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Year ended June 30, 2011:				
Reserves and allowances deducted from asset accounts:				
Reserve for estimated doubtful accounts receivable	\$ 1,988,000	\$ 949,000	\$ (873,000)(a)	\$ 2,064,000
Valuation allowance on deferred tax assets	6,698,000	831,000(b)		7,529,000
	\$ 8,686,000	\$ 1,780,000	\$ (873,000)	\$ 9,593,000
Year ended June 30, 2010:				
Reserves and allowances deducted from asset accounts:				
Reserve for estimated doubtful accounts receivable	\$ 1,043,000	\$ 1,017,000	\$ (72,000)(a)	\$ 1,988,000
Valuation allowance on deferred tax assets	6,634,000	64,000(b)		6,698,000
	\$ 7,677,000	\$ 1,081,000	\$ (72,000)	\$ 8,686,000
Year ended June 30, 2009:				
Reserves and allowances deducted from asset accounts:				
Reserve for estimated doubtful accounts receivable	\$ 834,000	\$ 857,000	\$ (648,000)(a)	\$ 1,043,000
Valuation allowance on deferred tax assets	6,561,000	73,000(b)		6,634,000
	\$ 7,395,000	\$ 930,000	\$ (648,000)	\$ 7,677,000

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

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

## Index of Exhibits

### Exhibit No.

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 3.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998).
- 4.2 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated By-laws of the Registrant defining rights of holders of Common Stock of the Registrant (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-1, File No. 333-22425 (the Registration Statement)).
- 10.1 Employment Agreement dated as of October 9, 2001 by and between the Registrant and David E. Hershberg (incorporated by reference to Exhibit 10.9 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001)
- 10.2 The Amended and Restated 1997 Stock Incentive Plan (incorporated by reference to Exhibit 99 of the Registrant's Registration Statement on Form S-8 Registration, File No. 333-112351).
- 10.3 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.8 of the Registrant's Registration Statement on Form S-8, File No. 333-70527).
- 10.4 Employment Agreement, dated as of October 9, 2001, by and between Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.21 of the Registrant's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2001).
- 10.5 2006 Incentive Stock Plan. (incorporated by reference to Appendix A of the Registrant's Definitive proxy on schedule 14A, filed with the Commission on October 13, 2006).
- 10.6 Amendment to Employment Agreement, dated as of May 15, 2008, by and between Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.20 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2008).
- 10.7 Employment Agreement, dated as of June 30, 2008, by and between Keith Hall and the Registrant (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2008).
- 10.8 Employment Agreement, dated as of June 30, 2008, by and between Tom Coyle and the Registrant (incorporated by reference to Exhibit 10.24 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2008).
- 10.9 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, David E. Hershberg and the Registrant (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.10 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, Andrew C. Melfi and the Registrant (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.11 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, Thomas C. Coyle and the Registrant (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.12 Amendment to Employment Agreement, dated as of January 21, 2009, by and between, Keith Hall and the Registrant (incorporated by reference to Exhibit 10.8 of the Registrant's Current Report on Form 8-K, dated January 21, 2009).
- 10.13 Credit Agreement, dated March 11, 2009, by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated March 11, 2009).

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-K

- 10.14 Employment Agreement, dated as of July 21, 2009, by and between Keith Hall and the Registrant (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2009).
  - 10.15 Globecomm Systems Inc./Telaurus 2009 Special Equity Incentive Plan (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2009).
-

**Exhibit  
No.**

- 10.16 Acquisition Agreement, dated March 5, 2010, by and among the Registrant, Globecomm Holdings BV, Globecomm (BVI) Ltd and Carrier to Carrier Telecom Holdings Limited (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K, dated March 5, 2010).
- 10.17 Asset Purchase Agreement, dated March 5, 2010, by and among the Registrant, Globecomm (BVI) Ltd, Carrier to Carrier Telecom Holdings Limited and Evocomm Communications Limited (incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K, dated March 5, 2010).
- 10.18 Amendment No. 4 to Credit Agreement, dated May 28, 2010 by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated May 28, 2010)
- 10.19 Agreement and Plan of Merger, dated as of April 8, 2011, by and among ComSource Inc., the Registrant, ComSource Merger Sub, Inc. and Jerald L. Cruce, as the Stockholders' Representative (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K, dated April 7, 2011).
- 10.20 Amendment No. 5 to Credit Agreement, dated April 7, 2011 by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated April 7, 2011).
- 10.21 Employment Agreement, dated as of June 23, 2011, by and between Andrew Silberstein and the Registrant (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated June 23, 2011).
- 10.22 Credit Agreement, dated July 18, 2011 by and between the Registrant and Citibank, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, dated July 18, 2011).
- 10.23 Amended and Restated 2006 Stock Incentive Plan (filed herewith).
- 14 Registrant's Code of Ethics and Business Conduct (incorporated by reference to Exhibit 14 of the Registrant's Annual Report on Form 10-K for the year ended June 30, 2004).
- 21 Subsidiaries of the Registrant (filed herewith).
- 23 Consent of Independent Registered Public Accounting Firm (filed herewith).
- 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 Sarbanes Oxley Act of 2002 (filed herewith).