

GLOBECOMM SYSTEMS INC
Form 10-Q
November 08, 2013
Table of Contents

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 000-22839

Globecomm Systems Inc.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-3225567 (I.R.S. Employer Identification No.)
45 Oser Avenue, Hauppauge, NY (Address of principal executive offices)	11788 (Zip Code)
Registrant's telephone number, including area code: (631) 231-9800	

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of November 5, 2013, there were 23,914,772 shares of the registrant's Common Stock outstanding.

Table of Contents

GLOBECOMM SYSTEMS INC.

Index to the September 30, 2013 Form 10-Q

	Page
<u>Part I – Financial Information</u>	
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets – As of September 30, 2013 (unaudited) and June 30, 2013</u>	3
<u>Consolidated Statements of Operations (unaudited) – For the three months ended September 30, 2013 and 2012</u>	4
<u>Consolidated Statements of Comprehensive Income (unaudited) – For the three months ended September 30, 2013 and 2012</u>	5
<u>Consolidated Statement of Changes in Stockholders' Equity (unaudited) – For the three months ended September 30, 2013</u>	6
<u>Consolidated Statements of Cash Flows (unaudited) – For the three months ended September 30, 2013 and 2012</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	25
<u>Part II – Other Information</u>	
Item 1. <u>Legal Proceedings</u>	26
Item 1A. <u>Risk Factors</u>	26
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 3. <u>Defaults Upon Senior Securities</u>	37
Item 4. <u>Mine Safety Disclosures</u>	37
Item 5. <u>Other Information</u>	37
Item 6. <u>Exhibits</u>	37
<u>Signatures</u>	38

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

	September 30, 2013 (Unaudited)	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,986	\$ 87,286
Accounts receivable, net	49,701	58,426
Inventories	20,858	17,076
Prepaid expenses and other current assets	5,577	4,056
Deferred income taxes	4,254	4,309
Total current assets	171,376	171,153
Fixed assets, net	50,089	50,367
Goodwill	72,474	68,818
Intangibles, net	17,169	16,576
Other assets	1,517	1,327
Total assets	\$ 312,625	\$ 308,241
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 21,328	\$ 21,943
Deferred revenues	6,367	4,269
Accrued payroll and related fringe benefits	4,477	3,264
Other accrued expenses	7,181	7,243
Current portion of long-term debt	6,100	6,100
Total current liabilities	45,453	42,819
Other liabilities	111	111
Long term debt	6,950	8,475
Deferred income taxes	12,383	12,383
Commitments and contingencies		
Stockholders equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at September 30, 2013 and June 30, 2013		
	24	24

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-Q

Common stock, \$.001 par value, 50,000,000 shares authorized, shares issued:
24,375,973 at September 30, 2013 and 24,182,935 at June 30, 2013

Additional paid-in capital	217,037	214,735
Retained earnings	33,599	33,444
Treasury stock, at cost, 465,351 shares at September 30, 2013 and June 30, 2013	(2,781)	(2,781)
Accumulated other comprehensive loss	(151)	(969)
Total stockholders equity	247,728	244,453
Total liabilities and stockholders equity	\$ 312,625	\$ 308,241

See accompanying notes.

Table of Contents

GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	September 30, 2013	September 30, 2012
Revenues from services	\$ 44,920	\$ 47,172
Revenues from infrastructure solutions	12,342	33,991
Total revenues	57,262	81,163
Costs and operating expenses:		
Costs from services	31,378	32,004
Costs from infrastructure solutions	10,838	32,072
Selling and marketing	4,453	4,288
Research and development	1,012	953
General and administrative	9,351	7,695
Total costs and operating expenses	57,032	77,012
Income from operations	230	4,151
Interest income	96	85
Interest expense	(77)	(114)
Income before income taxes	249	4,122
Provision for income taxes	94	1,446
Net income	\$ 155	\$ 2,676
Basic net income per common share	\$ 0.01	\$ 0.12
Diluted net income per common share	\$ 0.01	\$ 0.12
Weighted-average shares used in the calculation of basic net income per common share	23,199	22,425
Weighted-average shares used in the calculation of diluted net income per common share	23,589	22,859

See accompanying notes.

Table of Contents

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended	
	September 30,	September 30,
	2013	2012
Net income	\$ 155	\$ 2,676
Other comprehensive income, net of tax:		
Foreign currency translation	818	394
Comprehensive income	\$ 973	\$ 3,070

See accompanying notes.

Table of Contents

GLOBECOMM SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Total Stockholders Equity
	Shares	Amount			Shares	Amount			
Balance at June 30, 2013	24,183	\$ 24	\$ 214,735	\$ 33,444	\$ (969)	465	\$ (2,781)	\$ 244,453	
Proceeds from exercise of stock options	91		415					415	
Proceeds from exercise of warrants	105		1,055					1,055	
Stock compensation expense			832					832	
Grant (cancellation) of restricted shares	(3)								
Net income				155				155	
Foreign currency translation					818			818	
Balance at September 30, 2013	24,376	\$ 24	\$ 217,037	\$ 33,599	\$ (151)	465	\$ (2,781)	\$ 247,728	

See accompanying notes.

Table of Contents

GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	September 30, 2013	September 30, 2012
Operating Activities:		
Net income	\$ 155	\$ 2,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,225	2,973
Provision for doubtful accounts	89	(20)
Deferred income taxes	55	1,408
Stock compensation expense	832	869
Changes in operating assets and liabilities (net of impact of acquisition):		
Accounts receivable	8,468	(112)
Inventories	(3,777)	(756)
Prepaid expenses and other current assets	(1,486)	(184)
Other assets	(166)	9
Accounts payable	(721)	8
Deferred revenues	1,800	1,376
Accrued payroll and related fringe benefits	1,205	(1,261)
Other accrued expenses	(62)	(198)
Other liabilities		(66)
Net cash provided by operating activities	9,617	6,722
Investing Activities:		
Purchases of fixed assets	(2,090)	(2,821)
Acquisition of business	(3,793)	
Cash payments for earn-out		(4,700)
Net cash used in investing activities	(5,883)	(7,521)
Financing Activities:		
Proceeds from exercise of stock options	415	116
Proceeds from exercise of warrants	1,055	
Repayments of debt	(1,525)	(1,525)
Net cash used in financing activities	(55)	(1,409)
Effect of foreign currency translation on cash and cash equivalents	21	21

Edgar Filing: GLOBECOMM SYSTEMS INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	3,700	(2,187)
Cash and cash equivalents at beginning of period	87,286	72,196
Cash and cash equivalents at end of period	\$ 90,986	\$ 70,009
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 78	\$ 117
Cash paid for income taxes	87	49

See accompanying notes.

Table of Contents

GLOBECOMM SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for such periods have been included. The consolidated balance sheet at June 30, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2014, or for any future period.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2013 and the accompanying notes thereto contained in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 13, 2013.

Principles of Consolidation

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

Accounting Estimates

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

Revenue Recognition

The Company recognizes revenue for its production-type contracts that are sold separately as standard satellite ground segment systems when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectability is reasonably assured, delivery has occurred and the contractual performance specifications have been

met. The Company's standard satellite ground segment systems produced in connection with these contracts are typically short-term (less than twelve months in term) and manufactured using a standard modular production process. Such systems require less engineering, drafting and design efforts than the Company's long-term complex production-type projects. Revenue is recognized on the Company's standard satellite ground segment systems upon shipment and acceptance of factory performance testing which is when title transfers to the customer. The amount of revenues recorded on each standard production-type contract is reduced by the customer's contractual holdback amount, which typically requires 10% to 30% of the contract value to be retained by the customer until installation and final acceptance is complete. The customer generally becomes obligated to pay 70% to 90% of the contract value upon shipment and acceptance of factory performance testing. Installation is not deemed to be essential to the functionality of the system since installation does not require significant changes to the