GLOBECOMM SYSTEMS INC
Form 10-Q
February 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended December 31, 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	**11-3225567**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
45 Oser Avenue, Hauppauge, NY	**11788**
(Address of principal executive offices)	**(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 x 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 x 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 x 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 x

As of February 6, 2012, there were 22,947,867 shares of the registrant s Common Stock outstanding.

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GLOBECOMM SYSTEMS INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBECOMM SYSTEMS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2011 (Unaudited)	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 50,368	$ 47,964
Accounts receivable, net	68,859	59,335
Inventories	49,552	42,429
Prepaid expenses and other current assets	6,064	5,620
Deferred income taxes		1,642
Total current assets	174,843	156,990
Fixed assets, net	43,003	42,147
Goodwill	70,171	70,171
Intangibles, net	21,130	23,055
Other assets	2,028	2,248
Total assets	$ 311,175	$ 294,611
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 41,065	$ 31,403
Deferred revenues	16,874	13,649
Accrued payroll and related fringe benefits	5,887	6,412
Other accrued expenses	9,537	19,740
Current portion of long term debt	6,100	6,100
Total current liabilities	79,463	77,304
Other liabilities	4,132	9,248
Long term debt	17,625	20,675
Deferred income taxes	5,634	3,594
Commitments and contingencies		
Stockholders equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at December 31, 2011 and June 30, 2011		
Common stock, $.001 par value, 50,000,000 shares authorized, shares issued: 23,371,982 at December 31, 2011 and 22,927,635 at June 30, 2011	23	23
Additional paid-in capital	199,069	196,688
Retained earnings (deficit)	8,219	(10,358)
Treasury stock, at cost, 465,351 shares at December 31, 2011 and June 30, 2011	(2,781)	(2,781)
Accumulated other comprehensive (loss) income	(209)	218

Total stockholders equity		204,321	183,790
Total liabilities and stockholders equity	$	311,175	$ 294,611

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
Revenues from services	$ 54,652	$ 47,264	$ 104,891	$ 90,196
Revenues from infrastructure solutions	40,538	22,980	61,269	33,251
Total revenues	95,190	70,244	166,160	123,447
Costs and operating expenses:				
Costs from services	35,821	33,718	69,786	64,077
Costs from infrastructure solutions	36,370	19,091	54,492	27,207
Selling and marketing	4,855	4,639	9,448	8,677
Research and development	1,748	910	3,504	2,009
General and administrative	8,391	6,875	16,734	12,986
Earn-out fair value adjustments	(4,100)	2,012	(10,574)	2,149
Total costs and operating expenses	83,085	67,245	143,390	117,105
Income from operations	12,105	2,999	22,770	6,342
Interest income	57	42	112	100
Interest expense	(157)	(70)	(322)	(149)
Income before income taxes	12,005	2,971	22,560	6,293
Provision for income taxes	2,755	1,262	3,983	2,451
Net income	$ 9,250	$ 1,709	$ 18,577	$ 3,842
Basic net income per common share	$ 0.42	$ 0.08	$ 0.85	$ 0.18
Diluted net income per common share	$ 0.41	$ 0.08	$ 0.82	$ 0.18
Weighted-average shares used in the calculation of basic net income per common share	22,038	21,218	21,903	21,126
Weighted-average shares used in the calculation of diluted net income per common share	22,656	21,827	22,594	21,689

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED DECEMBER 31, 2011

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock		Total Stockholders
	Shares	Amount	Capital	(Deficit)	Income	Shares	Amount	Equity
Balance at June 30, 2011	22,928	$ 23	$ 196,688	$ (10,358)	$ 218	465	$ (2,781)	$ 183,790
Proceeds from exercise of stock options	116		616					616
Stock compensation expense			1,765					1,765
Grant of restricted shares	328							
Comprehensive income:								
Net income				18,577				18,577
Loss from foreign currency translation					(427)			(427)
Total comprehensive income								18,150
Balance at December 31, 2011	23,372	$ 23	$ 199,069	$ 8,219	$ (209)	465	$ (2,781)	$ 204,321

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	December 31, 2011	**December 31, 2010**
Operating Activities:		
Net income	$ 18,577	$ 3,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,196	4,327
Provision for doubtful accounts	168	81
Deferred income taxes	3,688	2,191
Stock compensation expense	1,765	1,716
Tax benefit from stock compensation plan		4
Earn-out fair value adjustments	(10,574)	2,149
Changes in operating assets and liabilities:		
Accounts receivable	(11,506)	(7,037)
Inventories	(7,290)	(5,450)
Prepaid expenses and other current assets	(592)	(1,621)
Other assets	166	(154)
Accounts payable	11,151	2,551
Deferred revenue	3,329	2,206
Accrued payroll and related fringe benefits	(501)	(1,465)
Other accrued expenses	(74)	(84)
Other liabilities	96	19
Net cash provided by operating activities	14,599	3,275
Investing Activities:		
Purchases of fixed assets	(5,137)	(5,332)
Cash payment for earn-outs	(4,500)	(586)
Net cash used in investing activities	(9,637)	(5,918)
Financing Activities:		
Proceeds from exercise of stock options	616	921
Repayments of debt	(3,050)	(1,250)
Net cash used in financing activities	(2,434)	(329)
Effect of foreign currency translation on cash and cash equivalents	(124)	189
Net increase (decrease) in cash and cash equivalents	2,404	(2,783)
Cash and cash equivalents at beginning of period	47,964	42,863
Cash and cash equivalents at end of period	$ 50,368	$ 40,080
Supplemental Disclosure of Cash Flow Information:		

Cash paid for interest	$	331	$	153
Cash paid for income taxes		250		312

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

(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, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three and six months ended December 31, 2011, are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2012, 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, 2011 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, 2011.

Principles of Consolidation

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

Accounting Estimates

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

Revenue Recognition

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

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

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

Revenues from services consist of the access, hosted 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.

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

Costs from Services

Costs from services 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 twenty-four hour a day, seven-day a week basis, including personnel and related costs and depreciation.

Costs from Infrastructure Solutions

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

Research and Development

Research and development expenditures are expensed as incurred.

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Stock-Based Compensation

Stock compensation expense was approximately $905,000 and $1,765,000 for the three and six months ended December 31, 2011, respectively. Stock compensation expense was approximately $963,000 and $1,716,000 for the three and six months ended December 31, 2010, respectively. As of December 31, 2011, there was approximately $193,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 2.8 years. As of December 31, 2011, there was approximately $5,987,000 of unrecognized compensation cost related to non-vested stock-based compensation related to restricted shares. The cost is expected to be recognized over a weighted-average period of 2.1 years.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. Goodwill and other indefinite life intangible assets are not amortized, but instead 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 six months ended December 31, 2011 that would indicate that goodwill and indefinite life intangible assets were impaired.

Comprehensive Income

Comprehensive income for the three and six months ended December 31, 2011 of approximately $9,127,000 and $18,150,000, respectively, includes an unrealized foreign currency translation loss of approximately $(123,000) and $(427,000), respectively. Comprehensive income for the three and six months ended December 31, 2010 of approximately $1,951,000 and $4,328,000 includes a foreign currency translation gain of approximately $242,000 and $486,000, respectively.

Income Taxes

Deferred Tax Assets

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

Uncertainty in Tax Positions

The Company recognizes in its financial statements the benefits of tax return positions if that tax position is more likely than not to be sustained on audit based on its technical merits. At December 31, 2011, the Company had a liability for unrecognized tax benefits of approximately $1,430,000, which, if recognized in the future, would favorably impact the Company s effective tax rate. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that none of these tax positions will be resolved within the next twelve months. The Company records both accrued interest and penalties related to income tax matters, if any, in the provision for income taxes in the accompanying consolidated statements of operations. As of December 31, 2011, the Company had not accrued any amounts for the potential payment of penalties and interest.

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The Company is subject to taxation in the U.S. and various state and foreign taxing jurisdictions. The Company s federal tax returns for the 2008 through 2011 fiscal 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 have terms of one year. Historically, warranty expense has been minimal, however, management periodically assesses the need for any additional warranty reserve.

Recent Accounting Pronouncements

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 did not have a material impact on the Company s consolidated financial condition or results of operations.

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

2. Basic and Diluted Net Income Per Common Share

Basic net income per common share is computed by dividing the net income for the period by the weighted-average number of common shares outstanding for the period. For diluted earnings per share the weighted average shares include the incremental common shares issuable upon the exercise of stock options, warrants, and unvested restricted shares (using the treasury stock method). The incremental common shares for stock options, warrants and unvested restricted shares are excluded from the calculation of diluted net income per share, if their effect is anti-dilutive. Diluted net income per share for the three and six months ended December 31, 2011 excludes the effect of approximately 73,000 stock options and restricted shares in the calculation of the incremental common shares, as their effect would have been anti-dilutive. Diluted net income per share for the three and six months ended December 31, 2010 excludes the effect of approximately 365,000 and 459,000 stock options, restricted shares and warrants in the calculation of the incremental common shares, as their effect would have been anti-dilutive.

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3. Inventories

Inventories consist of the following:

	December 31, 2011 (Unaudited)	June 30, 2011
	(In thousands)	
Raw materials and component parts	$ 2,361	$ 1,496
Work-in-progress	50,137	43,187
	52,498	44,683
Less progress payments	2,946	2,254
	$ 49,552	$ 42,429

4. Segment Information

The Company operates through two business segments. Its services segment, through GNSC, 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.

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The following is the Company s business segment information for the three and six months ended December 31, 2011 and 2010:

	Three Months Ended		Six Months Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(Unaudited)			
	(In thousands)			
Revenues:				
Services	$ 57,821	$ 47,313	$ 109,285	$ 90,294
Infrastructure solutions	40,587	23,138	61,480	33,409
Intercompany eliminations	(3,218)	(207)	(4,605)	(256)
Total revenues	$ 95,190	$ 70,244	$ 166,160	$ 123,447
Income (loss) from operations:				
Services(1)	$ 13,740	$ 4,345	$ 27,192	$ 9,844
Infrastructure solutions	(1,545)	(1,338)	(4,335)	(3,490)
Interest income	57	42	112	100
Interest expense	(157)	(70)	(322)	(149)
Intercompany eliminations	(90)	(8)	(87)	(12)
Income before income taxes	$ 12,005	$ 2,971	$ 22,560	$ 6,293
Depreciation and amortization:				
Services	$ 2,615	$ 1,708	$ 5,342	$ 3,463
Infrastructure solutions	434	430	854	875
Intercompany eliminations		(5)		(11)
Total depreciation and amortization	$ 3,049	$ 2,133	$ 6,196	$ 4,327
Expenditures for long-lived assets:				
Services	$ 2,100	$ 2,378	$ 3,252	$ 5,073
Infrastructure solutions	1,312	217	1,885	259
Total expenditures for long-lived assets	$ 3,412	$ 2,595	$ 5,137	$ 5,332

(1) The three and six months ended December 31, 2011 includes gains recorded for fair value adjustments of $4.1 million and $10.6 million, respectively. The three and six months ended December 31, 2010 includes expense recorded for fair value adjustments of $2.0 million and $2.1 million, respectively.

5. Long Term Debt

Line of Credit

On July 18, 2011, the Company entered into a new secured credit facility with Citibank, N.A. which expires October 31, 2014. The credit facility is comprised of a $72.5 million line of credit (the 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 December 31, 2011, the applicable margin on the LIBOR rate was 225 basis points. The Company is required to comply with various ongoing financial covenants, including with respect to the Company s leverage ratio, minimum cash balance, fixed charge coverage ratio and EBITDA minimums, with which the Company was in compliance at December 31, 2011. As of December 31, 2011, in addition to the C2C Acquisition Loan and ComSource Acquisition Loan, each described below, there were standby letters of credit of approximately $5.2 million, which were applied against and reduced the amounts available under the credit facility.

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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 then-existing credit facility. The C2C Acquisition Loan bears interest at the prime rate or LIBOR plus 225 basis points, at the Company s discretion. The balance is to be paid in equal monthly instalments, excluding interest, of approximately $208,333 beginning on April 1, 2010. The interest rate in effect as of December 31, 2011 was approximately 2.5% per annum. At December 31, 2011, $8,125,000 was outstanding of which $2,500,000 was due within one year.

ComSource Acquisition Loan

The purchase of ComSource was funded, in part, through a five-year $18,000,000 acquisition term loan (ComSource Acquisition Loan) provided by Citibank, N.A on April 7, 2011. The ComSource Acquisition Loan bears interest at the prime rate or LIBOR plus 225 basis points, at the Company s discretion. The balance is to be paid in equal monthly instalments, excluding interest, of $300,000 beginning on May 1, 2011. The interest rate in effect as of December 31, 2011 was approximately 2.5% per annum. At December 31, 2011, $15,600,000 was outstanding of which $3,600,000 was due within one year.

As of December 31, 2011 debt consisted of the following (in thousands):

C2C Acquisition Loan	$ 8,125
ComSource Acquisition Loan	15,600
Total debt	23,725
Less current portion	6,100
Long term debt	$ 17,625

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

2012	$ 3,050
2013	6,100
2014	6,100
2015	5,475
2016	3,000

6. Acquisitions

ComSource

The Company entered into an Agreement and Plan of Merger effective as of April 8, 2011 with 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. To the extent that working capital at the effective date was less or more than $400,000, there will 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 liability related to the earn-out was estimated by the Company to be $6.0 million and $16.6 million as of December 31, 2011 and June 30, 2011, respectively. The Company recorded a $4.1 million gain (or $0.18 per diluted common share) and a $10.6 million gain (or $0.47 per diluted common share) in the three and six months ended December 31, 2011, respectively, and reduced the earn-out liability. The unforeseen loss of funding on a program in September 2011

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resulted in the fair value adjustment recorded in the three months ended September 30, 2011. A reduction in the forecasted results due to delays in funding of new programs resulted in the fair value adjustment in