GLOBECOMM SYSTEMS INC
Form 10-Q
May 10, 2013
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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 March 31, 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	**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 May 7, 2013, there were 23,655,013 shares of the registrant s Common Stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBECOMM SYSTEMS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2013 (Unaudited)	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 71,414	$ 72,196
Accounts receivable, net	62,023	59,224
Inventories	32,801	30,664
Prepaid expenses and other current assets	4,432	4,101
Deferred income taxes	1,261	7,041
Total current assets	171,931	173,226
Fixed assets, net	50,483	47,712
Goodwill	68,649	68,463
Intangibles, net	17,239	19,331
Other assets	1,450	1,335
Total assets	$ 309,752	$ 310,067
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 30,879	$ 34,017
Deferred revenues	5,186	4,626
Accrued payroll and related fringe benefits	4,820	6,728
Other accrued expenses	6,102	11,918
Current portion of long term debt	6,100	6,100
Total current liabilities	53,087	63,389
Other liabilities	96	230
Long term debt	10,000	14,575
Deferred income taxes	12,485	12,485
Commitments and contingencies		
Stockholders equity:		
Series A Junior Participating, shares authorized, issued and outstanding: none at March 31, 2013 and June 30, 2012		
Common stock, $.001 par value, 50,000,000 shares authorized, shares issued: 24,092,979 at March 31, 2013 and 23,510,377 at June 30, 2012	24	24
Additional paid-in capital	209,117	205,162
Retained earnings	28,886	18,205
Treasury stock, at cost, 465,351 shares at March 31, 2013 and June 30, 2012	(2,781)	(2,781)
Accumulated other comprehensive (loss)	(1,162)	(1,222)

Total stockholders equity	234,084	219,388
Total liabilities and stockholders equity	$ 309,752	$ 310,067

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Revenues from services	$ 51,761	$ 65,931	$ 149,105	$ 170,822
Revenues from infrastructure solutions	26,306	44,998	89,864	106,267
Total revenues	78,067	110,929	238,969	277,089
Costs and operating expenses:				
Costs from services	35,030	47,182	100,813	116,968
Costs from infrastructure solutions	22,816	40,047	81,595	94,539
Selling and marketing	4,485	4,843	13,191	14,291
Research and development	1,194	1,398	3,133	4,902
General and administrative	8,071	8,179	23,677	24,913
Earn-out fair value adjustments		2,829		(7,745)
Total costs and operating expenses	71,596	104,478	222,409	247,868
Income from operations	6,471	6,451	16,560	29,221
Interest income	79	59	246	171
Interest expense	(92)	(141)	(309)	(463)
Income before income taxes	6,458	6,369	16,497	28,929
Provision for income taxes	2,282	3,467	5,816	7,450
Net income	$ 4,176	$ 2,902	$ 10,681	$ 21,479
Basic net income per common share	$ 0.18	$ 0.13	$ 0.47	$ 0.98
Diluted net income per common share	$ 0.18	$ 0.13	$ 0.46	$ 0.95
Weighted-average shares used in the calculation of basic net income per common share	22,804	22,213	22,620	22,006
Weighted-average shares used in the calculation of diluted net income per common share	23,190	22,839	23,010	22,680

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Net income	$ 4,176	$ 2,902	$ 10,681	$ 21,479
Other comprehensive income, net of tax:				
Foreign currency translation	$ (767)	$ 69	60	(358)
Comprehensive income	$ 3,409	$ 2,971	$ 10,741	$ 21,121

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED MARCH 31, 2013

(In thousands)

(Unaudited)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive (Loss)	Treasury Stock		Total Stockholders
	Shares	Amount	Capital	Earnings	Income	Shares	Amount	Equity
Balance at June 30, 2012	23,510	$ 24	$ 205,162	$ 18,205	$ (1,222)	465	$ (2,781)	$ 219,388
Proceeds from exercise of stock options	136		578					578
Proceeds from exercise of warrants	51		508					508
Stock compensation expense			2,869					2,869
Grant of restricted shares	396							
Net income				10,681				10,681
Foreign currency translation					60			60
Balance at March 31, 2013	24,093	$ 24	$ 209,117	$ 28,886	$ (1,162)	465	$ (2,781)	$ 234,084

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Operating Activities:		
Net income	$ 10,681	$ 21,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,743	9,391
Provision for doubtful accounts	(213)	125
Deferred income taxes	5,780	6,621
Stock compensation expense	2,869	2,627
Earn-out fair value adjustments		(7,745)
Changes in operating assets and liabilities:		
Accounts receivable	(2,642)	(618)
Inventories	(2,201)	(3,805)
Prepaid expenses and other current assets	(349)	(32)
Other assets	(107)	923
Accounts payable	(3,028)	9,288
Deferred revenue	551	(6,556)
Accrued payroll and related fringe benefits	(1,864)	558
Other accrued expenses	(1,243)	503
Other liabilities	(134)	194
Net cash provided by operating activities	16,843	32,953
Investing Activities:		
Purchases of fixed assets	(9,354)	(9,622)
Cash payment for earn-outs	(4,700)	(4,500)
Net cash used in investing activities	(14,054)	(14,122)
Financing Activities:		
Proceeds from exercise of stock options	578	1,290
Proceeds from exercise of warrants	508	100
Repayments of debt	(4,575)	(4,575)
Net cash used in financing activities	(3,489)	(3,185)
Effect of foreign currency translation on cash and cash equivalents	(82)	(255)
Net (decrease) increase in cash and cash equivalents	(782)	15,391
Cash and cash equivalents at beginning of period	72,196	47,964

Cash and cash equivalents at end of period	$ 71,414	$ 63,355
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 315	$ 476
Cash paid for income taxes	390	702

See accompanying notes.

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GLOBECOMM SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 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, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2013, or for any future period.

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

Principles of Consolidation

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

Accounting Estimates

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

Revenue Recognition

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

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

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

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

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

Costs from Services

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

Costs from Infrastructure Solutions

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

Research and Development

Research and development expenditures are expensed as incurred.

Stock-Based Compensation

Stock compensation expense was approximately $983,000 and $2,869,000 for the three and nine months ended March 31, 2013, respectively. Stock compensation expense was approximately $862,000 and $2,627,000 for the three and nine months ended March 31, 2012, respectively. As of March 31, 2013, there was approximately $6,293,000 of unrecognized compensation cost related to non-vested restricted shares and restricted share units. The cost is expected to be recognized over a weighted-average period of 2.1 years. As of March 31, 2013, there was approximately $83,000 of unrecognized compensation cost related to non-vested outstanding stock options. The cost is expected to be recognized over a weighted-average period of 1.8 years.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of businesses over the fair value of the identifiable net assets acquired. Goodwill and other indefinite life intangible assets are tested for impairment at least annually. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit s goodwill to its implied fair value (i.e., fair value of the reporting unit less the fair value of the unit s assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment charge. The Company performs the goodwill impairment test annually in the fourth fiscal quarter. There have been no events in the three and nine months ended March 31, 2013 that would indicate that goodwill and indefinite life intangible assets were impaired.

Comprehensive Income

Comprehensive income for the three and nine months ended March 31, 2013 of approximately $3,409,000 and $10,741,000, respectively, includes an unrealized foreign currency translation loss of approximately $767,000 and a gain of approximately $60,000, respectively. Comprehensive income for the three and nine months ended March 31, 2012 of approximately $2,971,000 and $21,121,000, respectively, includes an unrealized foreign currency translation gain of approximately $69,000 and a loss of approximately $358,000, 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 March 31, 2013, the Company had a liability for unrecognized tax benefits of approximately $1,531,000, 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,

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in the provision for income taxes in the accompanying consolidated statements of operations. As of March 31, 2013, 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 2009 through 2012 tax years remain subject to examination. The Company files returns in numerous state jurisdictions with varying statutes of limitation.

Product Warranties

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

Recent Accounting Pronouncements

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

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

In July 2012, the FASB issued guidance that allows an entity the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is not more likely than not that the indefinite-lived intangible asset is impaired. An entity no longer will be required to perform the quantitative impairment test of indefinite-lived intangible assets if, after it assesses that the totality of events and circumstances, the entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this is pronouncement will not have a material impact on the Company s consolidated financial condition or results of operations.

In February 2013, the FASB issued guidance which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This guidance is effective for periods beginning after December 15, 2012. The adoption of this is pronouncement will not have a material impact on the Company s consolidated financial condition or results of operations.

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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 nine months ended March 31, 2013 excludes the effect of approximately 316,000 and 330,000 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 nine months ended March 31, 2012 excludes the effect of approximately 11,000 and 21,000 stock options and restricted shares in the calculation of the incremental common shares, as their effect would have been anti-dilutive.

3. Inventories

Inventories consist of the following:

	March 31, 2013 (Unaudited)	June 30, 2012
	(In thousands)	
Raw materials and component parts	$ 2,778	$ 1,998
Work-in-progress	31,549	30,717
	34,327	32,715
Less progress payments	1,526	2,051
	$ 32,801	$ 30,664

4. Segment Information

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

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

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The following is the Company s business segment information for the three and nine months ended March 31, 2013 and 2012

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
	(Unaudited) (In thousands)			
Revenues:				
Services	$ 52,069	$ 67,403	$ 150,416	$ 176,688
Infrastructure solutions	27,027	45,920	90,585	107,400
Intercompany eliminations	(1,029)	(2,394)	(2,032)	(6,999)
Total revenues	$ 78,067	$ 110,929	$ 238,969	$ 277,089
Income (loss) from operations:				
Services (1)	$ 7,939	$ 6,628	$ 22,420	$ 33,820
Infrastructure solutions	(1,450)	(231)	(5,866)	(4,566)
Interest income	79	59	246	171
Interest expense	(92)	(141)	(309)	(463)
Intercompany eliminations	(18)	54	6	(33)
Income before income taxes	$ 6,458	$ 6,369	$ 16,497	$ 28,929
Depreciation and amortization:				
Services	$ 2,552	$ 2,758	$ 7,579	$ 8,100
Infrastructure solutions	399	437	1,164	1,291
Total depreciation and amortization	$ 2,951	$ 3,195	$ 8,743	$ 9,391
Expenditures for fixed assets:				
Services	$ 2,922	$ 3,970	$ 7,849	$ 7,222
Infrastructure solutions	536	515	1,505	2,400
Total expenditures for fixed assets	$ 3,458	$ 4,485	$ 9,354	$ 9,622

(1) The three and nine months ended March 31, 2012 include $2.8 million of expense and $7.7 million of gain recorded for earn-out fair value adjustments, respectively.

5. Long Term Debt

Line of Credit

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

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

At March 31, 2013, the applicable margin on the LIBOR rate was 200 basis points. The Company is required to comply with various ongoing financial covenants, including with respect to the Company s leverage ratio, minimum cash balance, fixed charge coverage ratio and EBITDA minimums, with which the Company was in compliance at March 31, 2013. As of March 31, 2013, in