KVH INDUSTRIES INC \DE\
Form 10-Q
November 04, 2011
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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: September 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 0-28082

KVH Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**05-0420589**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

50 Enterprise Center, Middletown, RI 02842

(Address of Principal Executive Offices) (Zip Code)

(401) 847-3327

(Registrant s Telephone Number, Including Area Code)

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Date	Class	Outstanding shares
November 2, 2011	Common Stock, par value $0.01 per share	14,499,688

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts, unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,263	$ 7,241
Marketable securities	27,632	30,066
Accounts receivable, net of allowance for doubtful accounts of approximately $619 as of September 30, 2011 and $592 as of December 31, 2010	19,272	18,770
Inventories	19,586	14,765
Prepaid expenses and other assets	2,969	2,734
Deferred income taxes	561	944
Total current assets	75,283	74,520
Property and equipment, less accumulated depreciation of $26,510 as of September 30, 2011 and $23,518 as of December 31, 2010	29,383	23,044
Intangible assets, less accumulated amortization of $363 as of September 30, 2011 and $101 as of December 31, 2010	2,062	2,272
Goodwill	4,572	4,517
Other non-current assets	4,288	5,863
Deferred income taxes	5,524	4,982
Total assets	**$ 121,112**	**$ 115,198**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,113	$ 3,922
Accrued compensation and employee-related expenses	4,127	4,415
Accrued other	5,186	3,590
Accrued product warranty costs	922	887
Deferred revenue	1,664	1,011
Current portion of long-term debt	129	124
Total current liabilities	15,141	13,949
Other long-term liabilities	8	1,263
Line of credit	6,500	
Long-term debt excluding current portion	3,586	3,684
Total liabilities	**25,235**	**18,896**

Commitments and contingencies (notes 3 and 10)		
Stockholders equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued		
Common stock, $0.01 par value. Authorized 30,000,000 shares, 16,159,036 and 15,890,083 shares issued at September 30, 2011 and December 31, 2010; 14,675,267 and 14,688,759 shares outstanding at September 30, 2011 and December 31, 2010, respectively	162	159
Additional paid-in capital	105,558	102,728
Retained earnings	2,123	2,867
Accumulated other comprehensive (loss) income	(200)	19
Less: treasury stock at cost, common stock, 1,483,769 and 1,201,324 shares as of September 30, 2011 and December 31, 2010	(11,766)	(9,471)
Total stockholders equity	**95,877**	**96,302**
Total liabilities and stockholders equity	**$ 121,112**	**$ 115,198**

See accompanying Notes to Unaudited Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts, unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Sales:				
Product	$ 17,987	$ 21,598	$ 61,203	$ 70,010
Service	7,634	6,165	19,400	15,231
Net sales	25,621	27,763	80,603	85,241
Costs and expenses:				
Costs of product sales	9,745	11,688	33,756	38,498
Costs of service sales	5,464	4,537	15,360	11,907
Sales, marketing and support	5,614	4,380	16,790	13,615
Research and development	2,792	2,934	8,645	8,017
General and administrative	2,312	2,955	7,789	7,635
Total costs and expenses	25,927	26,494	82,340	79,672
(Loss) income from operations	(306)	1,269	(1,737)	5,569
Interest income	65	70	198	253
Interest expense	64	61	177	143
Other income (expense), net	872	(15)	887	48
Income (loss) before income tax (benefit) expense	567	1,263	(829)	5,727
Income tax (benefit) expense	(33)	626	(85)	(2,301)
Net income (loss)	**$ 600**	**$ 637**	**$ (744)**	**$ 8,028**
Per share information:				
Net income (loss) per share				
Basic	**$ 0.04**	**$ 0.04**	**$ (0.05)**	**$ 0.56**
Diluted	**$ 0.04**	**$ 0.04**	**$ (0.05)**	**$ 0.54**
Number of shares used in per share calculation:				
Basic	**14,877,481**	**14,482,585**	**14,842,746**	**14,360,407**
Diluted	**15,058,194**	**14,854,110**	**14,842,746**	**14,785,887**

See accompanying Notes to Unaudited Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net (loss) income	$ (744)	$ 8,028
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,284	2,746
Deferred income taxes	(166)	(3,321)
Provision for doubtful accounts	166	222
Loss on interest rate swaps	100	
Compensation expense related to awards and employee stock purchase plan	2,677	1,841
Changes in operating assets and liabilities:		
Accounts receivable	(635)	(1,573)
Inventories	(4,817)	(1,806)
Prepaid expenses and other assets	(253)	(1,335)
Other non-current assets	1,575	485
Accounts payable	(1,076)	1,728
Deferred revenue	662	(135)
Accrued expenses	(254)	2,723
Other long-term liabilities	(1,254)	(136)
Net cash (used in) provided by operating activities	**(735)**	**9,467**
Cash flows from investing activities:		
Capital expenditures	(8,112)	(10,189)
Net cash paid for business acquired		(6,451)
Purchases of marketable securities	(39,789)	(24,104)
Maturities and sales of marketable securities	42,222	29,447
Net cash used in investing activities	**(5,679)**	**(11,297)**
Cash flows from financing activities:		
Repayments of long-term debt	(92)	(88)
Proceeds from stock options exercised and employee stock purchase plan	791	3,408
Payment of employee restricted stock withholdings	(625)	(482)
Repurchase of common stock	(2,037)	
Proceeds from line of credit borrowings	6,500	
Payment of stock registration fee	(10)	(7)
Net cash provided by financing activities	**4,527**	**2,831**
Effect of exchange rate changes on cash and cash equivalents	(91)	336
Net (decrease) increase in cash and cash equivalents	**(1,978)**	**1,337**
Cash and cash equivalents at beginning of period	**7,241**	**5,871**
Cash and cash equivalents at end of period	**$ 5,263**	**$ 7,208**

Supplemental disclosure of noncash investing activity:				
Changes in accrued liabilities related to fixed asset additions	$	1,249	$	
Supplemental disclosure of noncash financing activity:				
Changes in accounts payable related to repurchases of common stock	$	259	$	

See accompanying Notes to Unaudited Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited, all amounts in thousands except share and per share amounts)

(1) Description of Business

KVH Industries, Inc. (the Company or KVH) develops, manufactures and markets mobile communications products for the marine, land mobile and aeronautical markets, and navigation, guidance and stabilization products for both the defense and commercial markets.

KVH s mobile communications products enable customers to receive voice and Internet services, and live digital television via satellite services in marine vessels, recreational vehicles and automobiles as well as live digital television on commercial airplanes while in motion. KVH sells its mobile communications products through an extensive international network of retailers, distributors and dealers. KVH also leases products directly to end users.

KVH offers precision fiber optic gyro-based (FOG) systems that enable platform and optical stabilization, navigation, pointing and guidance. KVH s guidance and stabilization products also include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a variety of military vehicles, including tactical trucks and light armored vehicles. KVH s guidance and stabilization products are sold directly to U.S. and allied governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, KVH s guidance and stabilization products have numerous commercial applications such as precision mapping, dynamic surveying, autonomous vehicles, train location control and track geometry measurement systems, industrial robotics and optical stabilization.

KVH s mobile communications service sales include sales earned from satellite voice and Internet airtime services, sales from product repairs, engineering services provided under development contracts, certain DIRECTV and DISH Network account subsidies and referral fees earned in conjunction with the sale of its products and extended warranty sales. KVH provides, for monthly fixed and usage fees, satellite connectivity sales from broadband Internet, data and Voice over Internet Protocol (VoIP) service to its TracPhone V-series customers. KVH also earns monthly usage fees for third-party satellite connectivity for voice, data and Internet services to its Inmarsat TracPhone customers who choose to activate their subscriptions with KVH. Under current DIRECTV and DISH Network programs, KVH is eligible to receive a one-time subsidy for each DIRECTV receiver activated for service and a new mobile account activation fee from DIRECTV and DISH Network for each customer who activates their DIRECTV or DISH Network service directly through KVH.

KVH s guidance and stabilization service sales include product repairs, engineering services provided under development contracts and extended warranty sales.

(2) Basis of Presentation

The accompanying consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiaries, KVH Industries A/S, KVH Industries Pte. Ltd., KVH Industries Brasil Comunicacao Por Satelite Ltda. and KVH Industries Norway A/S (collectively, KVH or the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company has evaluated all subsequent events through the date of this filing. Given that KVH Industries A/S, KVH Industries Pte. Ltd. and KVH Industries Brasil Comunicacao Por Satelite Ltda. operate as the Company s European, Asian and Brazilian international distributors, all of their operating expenses are reflected within sales, marketing and support within the accompanying consolidated statements of operations. KVH Industries Norway A/S, a subsidiary of KVH Industries A/S that was purchased in September 2010, develops and distributes middleware software solutions known as CommBox technology, which is being integrated into the Company s satellite communications products and services. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the current year presentation. The consolidated financial statements have not been audited by our independent registered public accounting firm and include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods presented. These consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 14, 2011 with the Securities and Exchange Commission. The results for the three and nine months ended September 30, 2011 are not necessarily indicative of operating results for the remainder of the year.

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(3) Significant Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Significant estimates and assumptions by management affect the Company s revenue recognition, valuation of accounts receivable, valuation of inventory, assumptions used to determine fair value of goodwill and intangible assets, deferred tax assets and related valuation allowance, stock-based compensation, warranty and accounting for contingencies.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances.

(4) Stock-Based Compensation

The Company recognizes stock-based compensation in accordance with the provisions of Accounting Standards Codification (ASC) 718, *Compensation-Stock Based Compensation*. Stock-based compensation expense was $851 and $720 for the three months ended September 30, 2011 and September 30, 2010, respectively and $2,677 and $1,841 for the nine months ended September 30, 2011 and September 30, 2010, respectively. As of September 30, 2011, there was $1,940 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 3.01 years. As of September 30, 2011, there was $6,546 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.14 years.

The Company granted 35,000 and 167,500 restricted stock awards to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three and nine months ended September 30, 2011, respectively. The restricted stock awards vest ratably over four years from the date of grant subject to the recipient remaining employed through the applicable vesting dates. Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market closing price of the Company s common stock. Such value is recognized as expense over the vesting period of the award, net of estimated forfeitures.

The Company did not grant stock options to employees during the three months ended September 30, 2011. The Company granted 260,000 stock options to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan and the Amended and Restated 2003 Incentive and Nonqualified Stock Option Plan during the nine months ended September 30, 2011.

The fair value of stock options granted for the nine months ended September 30, 2011 was estimated as of the date of grant using the Black-Scholes option-pricing model. There were no options granted during the three and nine months ended September 30, 2010. The weighted-average fair value per share for all options granted during the nine months ended September 30, 2011 was $6.88. The weighted-average assumptions used to value options as of their grant date were as follows:

	Nine months ended September 30, 2011
Risk-free interest rate	1.83%
Expected volatility	59.84%
Expected life (in years)	4.23
Dividend yield	0%

(5) Net Income (Loss) per Common Share

Basic net income (loss) per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury stock accounting method. The Company has excluded all outstanding stock options and non-vested restricted shares from the calculation of diluted earnings per share for the nine months ended September 30, 2011 because the net loss causes these outstanding stock options and non-vested restricted shares to be anti-dilutive. Common stock equivalents related to options and restricted stock awards for 989,690 shares of common stock for the three months ended September 30, 2011 have been excluded from the fully diluted calculation of net income (loss) per share, as inclusion would be anti-dilutive. Common stock equivalents related to options and restricted stock awards for 90,750 and 15,750 shares of common stock for the three and nine months ended September 30, 2010, respectively, have been excluded from the fully diluted calculation of net income per share, as inclusion would be anti-dilutive.

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A reconciliation of the basic and diluted weighted average common shares outstanding is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding basic	14,877,481	14,482,585	14,842,746	14,360,407
Dilutive common shares issuable in connection with stock plans	180,713	371,526		425,480
Weighted average common shares outstanding diluted	15,058,194	14,854,111	14,842,746	14,785,887

(6) Inventories

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of September 30, 2011 and December 31, 2010 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	September 30, 2011	December 31, 2010
Raw materials	$ 11,404	$ 10,191
Work in process	1,670	1,369
Finished goods	6,512	3,205
	$ 19,586	$ 14,765

(7) Comprehensive (Loss) Income

Comprehensive (loss) income includes net income (loss) and other comprehensive (loss) income. Other comprehensive (loss) income includes the effects of unrealized gains or losses on available-for-sale marketable securities, currency translation adjustment gains or losses as well as unrealized losses on derivatives that are separately included in accumulated other comprehensive (loss) income within stockholders equity. The Company s comprehensive (loss) income for the periods presented is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income (loss)	$ 600	$ 637	$ (744)	$ 8,028
Unrealized (loss) gain on available-for-sale securities	(2)	1	(1)	(36)
Currency translation adjustment (loss) gain	(616)	336	285	336
Unrealized loss on derivatives	(224)	(127)	(503)	(441)
Total comprehensive (loss) income	$ (242)	$ 847	$ (963)	$ 7,887

(8) Product Warranty

The Company s products carry limited warranties that range from one to four years and vary by product. The warranty period begins on the date of retail purchase or lease by the original purchaser. The Company accrues estimated product warranty costs at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated. Factors that affect the Company s warranty liability include the number of units sold or leased, historical and anticipated rates of warranty repairs and the cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying statements of operations. As of September 30, 2011 and December 31, 2010, the Company had accrued product warranty costs of $922 and $887, respectively. The following table summarizes product warranty activity during 2011 and 2010:

	Nine months ended September 30,	
	2011	2010
Beginning balance	$ 887	$ 1,084
Charges to expense	601	224
Costs incurred	(566)	(351)
Ending balance	$ 922	$ 957

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(9) Segment Reporting

Under common operational management, the Company designs, develops, manufactures and markets its navigation, guidance and stabilization and mobile communications products for use in a wide variety of applications. Products are generally sold directly to third-party consumer electronic dealers and retailers, original equipment manufacturers, government contractors or to U.S. and other foreign government agencies. Primarily, sales originating in the Americas consist of sales within the United States and Canada and, to a lesser extent, Mexico and some Latin and South American countries. The Americas sales also include all guidance and stabilization product sales throughout the world. Sales originating from the Company s European and Asian subsidiaries principally consist of sales into all European countries, both inside and outside the European Union, as well as Africa, Asia/Pacific, the Middle East and India.

The Company operates in two geographic segments, exclusively in the mobile communications, navigation and guidance and stabilization equipment industry, which it considers to be a single business activity. The Company has two primary product categories: mobile communication and guidance and stabilization. Mobile communication sales and services include marine, land mobile, automotive, and aeronautical communication equipment and satellite-based voice, television and Broadband Internet connectivity services, as well as DIRECTV and DISH Network account subsidies and referral fees earned in conjunction with the sale of our products. Guidance and stabilization sales and services include sales of defense-related navigation and guidance and stabilization equipment based upon digital compass and fiber optic sensor technology. Mobile communication and guidance and stabilization sales also include development contract revenue, product repairs and extended warranty sales.

The following table summarizes information regarding the Company s operations by geographic segment:

	Sales Originating From		
Three months ended September 30, 2011	**Americas**	**Europe and Asia**	**Total**
Mobile communication sales to the United States	$ 13,129	$	$ 13,129
Mobile communication sales to Canada	204		204
Mobile communication sales to Europe	55	3,400	3,455
Mobile communication sales to other geographic areas	250	847	1,097
Guidance and stabilization sales to the United States	3,127		3,127
Guidance and stabilization sales to Canada	2,296		2,296
Guidance and stabilization sales to Europe	1,911		1,911
Guidance and stabilization sales to other geographic areas	402		402
Intercompany sales	2,079	300	2,379
Subtotal	23,453	4,547	28,000
Eliminations	(2,079)	(300)	(2,379)
Net sales	$ 21,374	$ 4,247	$ 25,621
Segment net income (loss)	$ 642	$ (42)	$ 600
Depreciation and amortization	$ 969	$ 106	$ 1,075
Total assets	$ 104,390	$ 16,722	$ 121,112

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Three months ended September 30, 2010	Sales Originating From Americas	Europe and Asia	Total
Mobile communication sales to the United States	$ 11,549	$	$ 11,549
Mobile communication sales to Canada	128		128
Mobile communication sales to Europe	330	2,195	2,525
Mobile communication sales to other geographic areas	486	636	1,122
Guidance and stabilization sales to the United States	6,110		6,110
Guidance and stabilization sales to Canada	1,063		1,063
Guidance and stabilization sales to Europe	4,784		4,784
Guidance and stabilization sales to other geographic areas	482		482
Intercompany sales	1,114	274	1,388
Subtotal	26,046	3,105	29,151
Eliminations	(1,114)	(274)	(1,388)
Net sales	$ 24,932	$ 2,831	$ 27,763
Segment net income	$ 541	$ 96	$ 637
Depreciation and amortization	$ 975	$ 25	$ 1,000
Total assets	$ 101,029	$ 13,897	$ 114,926

Nine months ended September 30, 2011	Sales Originating From Americas	Europe and Asia	Total
Mobile communication sales to the United States	$ 37,144	$	$ 37,144
Mobile communication sales to Canada	680		680
Mobile communication sales to Europe	258	10,676	10,934
Mobile communication sales to other geographic areas	1,009	2,877	3,886
Guidance and stabilization sales to the United States	10,508		10,508
Guidance and stabilization sales to Canada	6,608		6,608
Guidance and stabilization sales to Europe	6,170		6,170
Guidance and stabilization sales to other geographic areas	4,673		4,673
Intercompany sales	6,696	817	7,513
Subtotal	73,746	14,370	88,116
Eliminations	(6,696)	(817)	(7,513)
Net sales	$ 67,050	$ 13,553	$ 80,603
Segment net loss	$ (641)	$ (103)	$ (744)
Depreciation and amortization	$ 2,965	$ 319	$ 3,284
Total assets	$ 104,390	$ 16,722	$ 121,112

Nine months ended September 30, 2010	Sales Originating From Americas	Europe and Asia	Total
Mobile communication sales to the United States	$ 35,283	$	$ 35,283
Mobile communication sales to Canada	498		498
Mobile communication sales to Europe	1,022	7,545	8,567
Mobile communication sales to other geographic areas	835	2,860	3,695
Guidance and stabilization sales to the United States	15,857		15,857
Guidance and stabilization sales to Canada	3,175		3,175
Guidance and stabilization sales to Europe	16,104		16,104
Guidance and stabilization sales to other geographic areas	2,062		2,062

Intercompany sales	5,411	274	5,685
Subtotal	80,247	10,679	90,926
Eliminations	(5,411)	(274)	(5,685)
Net sales	$ 74,836	$ 10,405	$ 85,241
Segment net income	$ 7,649	$ 379	$ 8,028
Depreciation and amortization	$ 2,706	$ 40	$ 2,746
Total assets	$ 101,029	$ 13,897	$ 114,926

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(10) Legal Matters

From time to time, the Company is involved in litigation incidental to the conduct of its business. In the ordinary course of business, the Company is a party to inquiries, legal proceedings and claims including, from time to time, disagreements with vendors and customers. The Company is not a party to any lawsuit or proceeding that, in management s opinion, is likely to materially harm the Company s business, results of operations, financial condition or cash flows.

(11) Share Buyback Program

On November 26, 2008, the Company s Board of Directors authorized a program to repurchase up to one million shares of the Company s common stock. As of September 30, 2011, 516,231 shares of the Company s common stock remain available for repurchase under the authorized program. The repurchase program is funded using the Company s existing cash, cash equivalents, marketable securities and future cash flows. Under the repurchase program, the Company, at management s discretion, may repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases depends on availability of shares, price, market conditions, alternative uses of capital, and applicable regulatory requirements. The program may be modified, suspended or terminated at any time without prior notice. The repurchase program has no expiration date. There were no other repurchase programs outstanding during the nine months ended September 30, 2011 and no repurchase programs expired during the period.

The Company purchased 282,445 shares of its common stock in the nine months ended September 30, 2011 at a total cost of approximately $2.3 million.

(12) Long-Term Aviation Antenna Development and Production Agreement

On February 18, 2008, the Company entered into a $20,055 long-term antenna development and production agreement with LiveTV (the Agreement) that was subsequently increased in 2009 to $20,896. Under the terms of the Agreement, the Company designed, developed, and manufactured satellite television antennas for use on narrowbody commercial aircraft operating in the United States. The Company began shipment of the antennas in the second quarter of 2009. In accordance with ASC 730, *Research and Development*, and the Agreement, these costs were capitalized as they were incurred and then expensed into costs of product sales as antennas were sold in proportion to the number of antennas delivered versus the total contractual antenna production requirement.

During the first fiscal quarter of 2011, LiveTV asked the Company to postpone deliveries under the Agreement. Because the two parties were unable to agree on delivery dates, the Agreement was terminated on March 13, 2011.

On September 1, 2011, the parties entered into a new three-year agreement covering maintenance of existing satellite antennas as well as pricing terms for the potential purchase of new antennas.

Because the Company reached agreement with LiveTV regarding the termination of the Agreement, the Company recorded a charge to other expense of $2,868 in the third quarter of 2011 to write off all of the remaining capitalized aviation antenna research and development costs. This charge was offset by a termination fee paid to the Company by LiveTV that resulted in a net benefit of $841, which is reflected in other income as of September 30, 2011.

(13) Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company s Level 1 assets are investments in money market mutual funds, government agency bonds, corporate notes and certificates of deposit.

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Level 2: Quoted prices for similar assets or liabilities in active markets; or observable prices that are based on observable market data, based on directly or indirectly market-corroborated inputs. The Company s Level 2 liabilities are interest rate swaps.

Level 3: Unobservable inputs that are supported by little or no market activity, and are developed based on the best information available given the circumstances. The Company has no Level 3 inputs.

Assets and liabilities measured at fair value are based on one or more of four valuation techniques. The four valuation techniques are as follows:

(a) Market approach prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

(b) Cost approach amount that would be required to replace the service capacity of an asset (replacement cost)

(c) Income approach techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models)

(d) The valuations of the interest rate swaps intended to mitigate the Company s interest rate risk are determined with the assistance of a third party financial institution using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each instrument. This analysis utilizes observable market-based inputs, including interest rate curves and interest rate volatility, and reflects the contractual terms of these instruments, including the period to maturity.

The following tables present financial assets and liabilities at September 30, 2011 and December 31, 2010 for which the Company measures fair value on a recurring basis, by level, within the fair value hierarchy:

September 30, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique**
Assets					
Money market mutual funds	$ 11,712	$ 11,712	$	$	(a)
Government agency bonds	9,005	9,005			(a)
Corporate notes	4,037	4,037			(a)
Certificates of deposit	2,878	2,878			(a)
Liabilities					
Interest rate swaps	$ 503	$	$ 503	$	(d)

December 31, 2010	**Total**	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique**
Assets					
Money market mutual funds	$ 14,607	$ 14,607	$	$	(a)
Government agency bonds	11,021	11,021			(a)
Certificates of deposit	2,572	2,572			(a)
Corporate notes	1,866	1,866			(a)
Liabilities					
Interest rate swaps	$ 243	$	$ 243	$	(d)

Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses.

(14) Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements, which amends ASC 820, Fair Value Measurements and Disclosures (ASC 820). This amendment requires new disclosures, including the reasons for and amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and separate presentation of purchases, sales, issuances and settlements in the reconciliation of activity for Level 3 fair value measurements. It also clarified guidance related to determining the appropriate classes of assets and liabilities and the information to be provided for valuation techniques used to measure fair value. This guidance with respect to Level 3 fair value measurements is effective for the Company in its interim and annual reporting periods beginning after December 15, 2010. Adoption of this guidance did not have a significant impact on the determination or reporting of the Company s financial results.

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In December 2010, the FASB issued Accounting Standards Update 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update clarify the acquisition date that should be used for reporting the pro forma financial information disclosures in Topic 805 when comparative financial statements are presented. The amendments also improve the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination(s). The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The effects of this guidance will depend on any future acquisitions the Company may complete.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS , which amended ASC 820, Fair Value Measurements and Disclosures. This guidance addresses efforts to achieve convergence between U.S. GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying U.S. GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity s net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. This guidance is effective for the Company in its interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact that adoption of the guidance will have on the determination and reporting of its financial results.

In June 2011, the FASB issued Accounting Standards Update 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, (ASU 2011-05) which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on the Company s consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

In September 2011, the FASB issued Accounting Standards Update 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing for Goodwill Impairment, (ASU 2011-8). ASU 2011-8 gives companies the option to perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, and in some cases, skip the two-step impairment test. The objective of the revised standard is to simplify how an entity tests goodwill for impairment and to reduce the cost and complexity of the annual goodwill impairment test. ASU 2011-8 will be effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating this guidance and the potential impact of the revised standard on the Company s annual goodwill impairment test.

(15) Business and Credit Concentrations

Significant portions of the Company s net sales are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Net sales to foreign customers outside the U.S. and Canada	26.9%	32.1%	32.1%	35.7%
Net sales to Customer A	*	15.9%	*	17.4%

* Represents less than 10% of net sales in the respective period.

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(16) Derivative Instruments and Hedging Activities

Effective April 1, 2010, in order to reduce the volatility of cash outflows that arise from changes in interest rates, the Company entered into two interest rate swap agreements. These interest rate swap agreements are intended to hedge the Company s mortgage loan related to its headquarters facility in Middletown, Rhode Island by fixing the interest rates specified in the mortgage loan to 5.91% for half of the principal amount outstanding and 6.07% for the remaining half of the principal amount outstanding as of April 1, 2010 until the mortgage loan expires on April 16, 2019.

As required by ASC Topic 815, *Derivatives and Hedging*, the Company records all derivatives on the balance sheet at fair value. As of September 30, 2011, the fair value of the derivatives is included in other accrued liabilities and the unrealized gain is included in other comprehensive income.

As of September 30, 2011, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivatives	Notional (in thousands)	Liability	Effective Date	Maturity Date	Index	Strike Rate
Interest rate swap	$ 1,858	242	April 1, 2010	April 1, 2019	1-month LIBOR	5.91%
Interest rate swap	$ 1,858	261	April 1, 2010	April 1, 2019	1-month LIBOR	6.07%

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The statements included in this quarterly report on Form 10-Q, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, products, competitive positions and plans, customer preferences, consumer trends, anticipated product development, and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, would, expects, plans, anticipates, believes, estimates, predicts, potential, continue, or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section entitled Risk Factors in Item 1A of Part II of this quarterly report. These and many other factors could affect our future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by us or on our behalf. For example, our expectations regarding certain items as a percentage of sales assume that we will achieve our anticipated sales goals. The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report.

Overview

We develop, manufacture and market mobile communications products for the marine, land mobile and aeronautical markets, and navigation, guidance and stabilization products for both the defense and commercial markets.

Our mobile communications products enable customers to receive voice and Internet services and live digital television via satellite services in marine vessels, recreational vehicles and automobiles as well as live digital television on commercial airplanes while in motion. We sell our mobile communications products through an extensive international network of retailers, distributors and dealers. We also lease products directly to end users.

We offer precision fiber optic gyro-based (FOG) systems that enable platform and optical stabilization, navigation, pointing and guidance. Our guidance and stabilization products also include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a variety of military vehicles, including tactical trucks and light armored vehicles. Our guidance and stabilization products are sold directly to U.S. and allied governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, our guidance and stabilization products have numerous commercial applications such as precision mapping, dynamic surveying, autonomous vehicles, train location control and track geometry measurement systems, industrial robotics and optical stabilization.

Our mobile communications service sales include sales earned from satellite voice and Internet airtime services, sales from product repairs, engineering services provided under development contracts, certain DIRECTV and DISH Network account subsidies and referral fees earned in conjunction with the sale of our products and extended warranty sales. We provide, for monthly fixed and usage fees, satellite connectivity services for broadband Internet, data and Voice over Internet Protocol

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(VoIP) service to our TracPhone V-series customers. We also earn monthly usage fees for third-party satellite connectivity for voice, data and Internet services to our Inmarsat TracPhone customers who choose to activate their subscriptions with us. Under current DIRECTV and DISH Network programs, we are eligible to receive a one-time subsidy for each DIRECTV receiver activated for service and a new mobile account activation fee from DIRECTV and DISH Network for each customer who activates their DIRECTV or DISH Network service directly through us.

Our guidance and stabilization service sales include engineering services provided under development contracts, product repairs and extended warranty sales.

We generate sales primarily from the sale of our mobile satellite systems and services and our guidance and stabilization products and services. The following table provides, for the periods indicated, our sales by industry category:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Mobile communications	$ 17,885	$ 15,324	$ 52,644	$ 48,043
Guidance and stabilization	7,736	12,439	27,959	37,198
Net sales	$ 25,621	$ 27,763	$ 80,603	$ 85,241

We have historically derived a substantial portion of our sales from sales to customers located outside the United States. Notes 9 and 15 of the notes to the consolidated financial statements provide information regarding our sales to specific geographic regions.

Critical Accounting Policies and Significant Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, sales and expenses, and related disclosure at the date of our financial statements. Our significant accounting policies are summarized in note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

As described in our Form 10-K for the year ended December 31, 2010, our most critical accounting policies and estimates upon which our consolidated financial statements were prepared were those relating to revenue recognition, allowances for accounts receivable, inventories, income taxes and deferred income tax assets and liabilities, warranty, stock-based compensation, goodwill and intangible assets and contingencies. We have reviewed our policies and estimates and determined that these remain our most critical accounting policies and estimates for the quarter ended September 30, 2011.

Readers should refer to our 2010 Form 10-K under Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Estimates for the detailed descriptions of these policies.

Results of Operations

The following table provides, for the periods indicated, certain financial data expressed as a percentage of net sales:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Sales:				
Product	70.2%	77.8%	75.9%	82.1%
Service	29.8	22.2	24.1	17.9

Net sales	100.0	100.0	100.0	100.0
Cost and expenses:				
Costs of product sales	38.0	42.1	41.9	45.2
Costs of service sales	21.4	16.3		