

KVH INDUSTRIES INC \DE\
Form 10-Q
May 11, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2015

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
(State or Other Jurisdiction of
Incorporation or Organization)
50 Enterprise Center, Middletown, RI 02842
(Address of Principal Executive Offices) (Zip Code)
(401) 847-3327
(Registrant's Telephone Number, Including Area Code)

05-0420589
(I.R.S. Employer
Identification Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 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
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

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
May 6, 2015	Common Stock, par value \$0.01 per share	16,071,202

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,379	\$ 25,289
Marketable securities	31,044	24,513
Accounts receivable, net of allowance for doubtful accounts of \$3,433 and \$2,723 as of March 31, 2015 and December 31, 2014, respectively	33,787	39,936
Inventories	18,648	17,424
Prepaid expenses and other assets	4,214	2,953
Current deferred income tax asset	2,790	2,772
Total current assets	108,862	112,887
Property and equipment, less accumulated depreciation of \$42,193 and \$41,486 as of March 31, 2015 and December 31, 2014, respectively	41,279	41,696
Intangible assets, less accumulated amortization of \$7,253 and \$5,864 as of March 31, 2015 and December 31, 2014, respectively	30,820	33,641
Goodwill	36,735	40,454
Other non-current assets	4,692	4,469
Non-current deferred income tax asset	2,733	2,690
Total assets	\$ 225,121	\$ 235,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,671	\$ 12,460
Accrued compensation and employee-related expenses	4,762	4,932
Accrued other	8,827	10,963
Accrued product warranty costs	1,714	1,853
Deferred revenue	7,774	7,791
Current portion of long-term debt	6,198	6,188
Liability for uncertain tax positions	3,401	3,500
Total current liabilities	44,347	47,687
Other long-term liabilities	1,350	1,459
Long-term debt, excluding current portion	63,135	64,687
Non-current deferred income tax liability	5,197	5,464
Total liabilities	\$ 114,029	\$ 119,297
Commitments and contingencies (notes 2, 9 and 11)		
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; 17,281,880 and 17,152,743 shares issued at March 31, 2015 and December 31, 2014, respectively; and 15,622,889 and 15,493,752 shares outstanding at March 31, 2015 and December 31, 2014, respectively	172	172
Additional paid-in capital	121,904	121,084
Retained earnings	10,459	11,881

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Accumulated other comprehensive loss	(8,293) (3,447)
	124,242	129,690	
Less: treasury stock at cost, common stock, 1,658,991 shares as of March 31, 2015 and December 31, 2014	(13,150) (13,150)
Total stockholders' equity	111,092	116,540	
Total liabilities and stockholders' equity	\$225,121	\$ 235,837	

See accompanying Notes to Unaudited Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except earnings per share amounts, unaudited)

	Three Months Ended		
	March 31,		
	2015	2014	
Sales:			
Product	\$ 15,386	\$ 18,007	
Service	25,919	18,978	
Net sales	41,305	36,985	
Costs and expenses:			
Costs of product sales	10,485	11,332	
Costs of service sales	13,260	11,060	
Research and development	3,750	3,667	
Sales, marketing and support	8,080	7,470	
General and administrative	7,638	5,150	
Total costs and expenses	43,213	38,679	
Loss from operations	(1,908) (1,694)
Interest income	148	210	
Interest expense	368	191	
Other income, net	413	107	
Loss before income tax benefit	(1,715) (1,568)
Income tax benefit	(293) (445)
Net loss	\$(1,422) \$(1,123)
Net loss per common share			
Basic and diluted	\$ (0.09) \$ (0.07)
Weighted average number of common shares outstanding:			
Basic and diluted	15,538	15,313	

See accompanying Notes to Unaudited Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
 (in thousands, unaudited)

	Three Months Ended March 31,	
	2015	2014
Net loss	\$ (1,422	) \$ (1,123
Other comprehensive (loss) income, net of tax:		
Unrealized gain on available-for-sale securities	2	8
Foreign currency translation adjustment	(4,835	) 248
Unrealized (loss) gain on derivative instruments	(13	) 9
Other comprehensive (loss) income, net of tax	(4,846	) 265
Total comprehensive loss	\$ (6,268	) \$ (858

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)

	Three Months Ended		
	March 31,		
	2015	2014	
Cash flows from operating activities:			
Net loss	\$(1,422	) \$(1,123)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Provision for doubtful accounts	502	47	
Depreciation and amortization	3,129	1,693	
Deferred income taxes	(426	) (289)
Loss on sale of fixed assets	39	—	
Loss on derivative instruments	13	21	
Compensation expense related to stock-based awards and employee stock purchase plan	958	1,003	
Changes in operating assets and liabilities:			
Accounts receivable	734	(698)
Inventories	(1,214	) (459)
Prepaid expenses and other assets	(565	) (984)
Other non-current assets	(428	) 245	
Accounts payable	(813	) (421)
Deferred revenue	5,418	907	
Accrued expenses	(2,710	) (503)
Other long-term liabilities	(11	) (10)
Net cash provided by (used in) operating activities	\$3,204	\$ (571)
Cash flows from investing activities:			
Capital expenditures	(1,270	) (771)
Purchases of marketable securities	(9,625	) (9,287)
Maturities and sales of marketable securities	3,095	14,256	
Net cash (used in) provided by investing activities	\$(7,800	) \$4,198	
Cash flows from financing activities:			
Repayments of long-term debt	(1,543	) (314)
Payment of employee restricted stock withholdings	(344	) (481)
Proceeds from stock options exercised and employee stock purchase plan	197	129	
Net cash used in financing activities	\$(1,690	) \$(666)
Effect of exchange rate changes on cash and cash equivalents	(624	) (36)
Net (decrease) increase in cash and cash equivalents	(6,910	) 2,925	
Cash and cash equivalents at beginning of period	25,289	9,358	
Cash and cash equivalents at end of period	\$18,379	\$12,283	

See accompanying Notes to Unaudited Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(1) Description of Business

KVH Industries, Inc. (together with its subsidiaries, the Company or KVH) designs, develops, manufactures and markets mobile communications products and services for the marine and land mobile 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, buses and automobiles. KVH's CommBox offers a range of tools designed to increase communication efficiency, reduce costs, and manage network operations. KVH sells and leases its mobile communications products through an extensive international network of dealers and distributors. KVH also sells and leases products directly to end users.

KVH's mobile communications service sales represent primarily sales earned from satellite voice and Internet airtime services. KVH provides, for monthly fixed and usage fees, satellite connectivity services, including broadband Internet, data and Voice over Internet Protocol (VoIP) services, to its TracPhone V-series customers. Mobile communications services sales also include the distribution of commercially licensed entertainment, including news, sports, music, and movies to commercial and leisure customers in the maritime, hotel, and retail markets through KVH Media Group (acquired as Headland Media Limited), the media and entertainment service company that KVH acquired on May 11, 2013, and the distribution of training films and e-Learning computer-based training courses to commercial customers in the maritime market through Super Dragon Limited and Videotel Marine Asia Limited (together referred to as Videotel), a maritime training services company that KVH acquired on July 2, 2014. KVH also earns monthly usage fees from third-party satellite connectivity services, including voice, data and Internet services, provided to its Inmarsat and Iridium customers who choose to activate their subscriptions with KVH. Mobile communications service sales also include engineering services provided under development contracts, sales from product repairs, and extended warranty sales.

KVH also offers precision fiber optic gyro (FOG)-based 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 foreign governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, KVH's guidance and stabilization products are used in numerous commercial products, such as navigation and positioning systems for various applications including precision mapping, dynamic surveying, autonomous vehicles, train location control and track geometry measurement systems, industrial robotics, and optical stabilization.

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

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiaries 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. All significant intercompany accounts

and transactions have been eliminated in consolidation.

The consolidated financial statements have not been audited by the Company's 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, 2014 filed on March 17, 2015 with the Securities and Exchange Commission. The results for the three months ended March 31, 2015 are not necessarily indicative of operating results for the remainder of the year.

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. As described in the Company's annual report on Form 10-K, the most 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. The Company has reviewed these estimates and determined that these remain the most significant estimates for the three months ended March 31, 2015. There have been no material changes to the significant accounting policies previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2014.

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. The Company has accounted for its \$19,000 contract received in October 2014 from an international military customer to purchase TACNAV products and services under ASC 605-25, Multiple-Element Arrangements. This contract includes program management and engineering services expected to be delivered through 2017 and hardware shipments expected to be fulfilled in 2015 and 2016, as well as out-year support services. The revenue for these services is recognized using the proportional performance accounting method. The Company limits the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specific return or refund privileges. Total revenue recognized on this contract for the three months ended March 31, 2015 and the year ended December 31, 2014 was approximately \$300 and \$1,100, respectively.

(3) Recently Announced Accounting Pronouncements

Revenue from Contracts

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), regarding ASC Topic 606 of the same nomenclature. ASU 2014-09 represents the culmination of efforts by the FASB and the International Accounting Standards Board to issue a common revenue standard. In April 2015, the FASB voted to propose a deferral of the effective date of the new revenue recognition standard by one year, which would result in ASU 2014-09 becoming effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Many of the Company's revenue sources are not within the scope of this new standard, and the Company is evaluating whether the adoption of ASU 2014-09 for those revenue sources that are in scope will have a material effect on the Company's consolidated statements of financial condition, results of operations or cash flows.

There are no other recent accounting pronouncements that have been issued by the FASB that would have a material impact on the financial statements of the Company.

(4) Marketable Securities

Included in marketable securities as of March 31, 2015 and December 31, 2014 are the following:

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market mutual funds	\$ 14,997	\$ —	\$ —	\$ 14,997
Government agency bonds	3,505	—	(1) 3,504

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United States treasuries	3,001	4	—	3,005
Corporate notes	3,605	3	—	3,608
Certificates of deposit	5,155	—	—	5,155
Municipal bonds	775	—	—	775
Total marketable securities designated as available-for-sale	\$31,038	\$7	\$(1) \$31,044

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December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market mutual funds	\$6,824	\$—	\$—	\$6,824
Government agency bonds	3,505	—	(3	) 3,502
United States treasuries	4,002	4	—	4,006
Corporate notes	4,665	2	—	4,667
Certificates of deposit	4,155	—	—	4,155
Municipal bonds	\$1,358	\$1	\$—	\$1,359
Total marketable securities designated as available-for-sale	\$24,509	\$7	\$(3	) \$24,513

The amortized costs and fair value of debt securities as of March 31, 2015 and December 31, 2014 are shown below by effective maturity. Effective maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

March 31, 2015	Amortized Cost	Fair Value
Due in less than one year	\$7,162	\$7,168
Due after one year and within two years	8,879	8,879
	\$16,041	\$16,047
December 31, 2014	Amortized Cost	Fair Value
Due in less than one year	\$7,663	\$7,668
Due after one year and within two years	10,022	10,021
	\$17,685	\$17,689

The Company realized gains of \$30 and \$32 from marketable securities during the three months ended March 31, 2015 and 2014, respectively.

(5) Stock-Based Compensation

The Company recognizes stock-based compensation in accordance with the provisions of ASC Topic 718, Compensation--Stock-Based Compensation. Stock-based compensation expense was \$958 and \$1,003 for the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, there was \$2,510 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 2.68 years. As of March 31, 2014, there was \$5,373 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.96 years.

The Company granted 163 and 225 restricted stock awards to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three months ended March 31, 2015 and 2014, 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 granted 95 and 0 stock options to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three months ended March 31, 2015 and 2014, respectively.

The fair value of stock options granted during the three months ended March 31, 2015 was estimated as of the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for all options granted during the three months ended March 31, 2015 was \$12.76. The weighted-average assumptions used to value options as of their grant date were as follows:

	Three Months Ended March 31,	
	2015	
Risk-free interest rate	1.54	%
Expected volatility	44.30	%
Expected life (in years)	4.18	
Dividend yield	0	%

(6) Net Loss per Common Share

Basic net loss per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net 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. For the three months ended March 31, 2015 and 2014, since there was a net loss, the Company excluded all outstanding stock options and non-vested restricted shares from its diluted loss per share calculation, as inclusion of these securities would have reduced the net loss per share.

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

	Three Months Ended March 31,	
	2015	2014
Weighted average common shares outstanding—basic	15,538	15,313
Dilutive common shares issuable in connection with stock plans	—	—
Weighted average common shares outstanding—diluted	15,538	15,313

(7) Inventories

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of March 31, 2015 and December 31, 2014 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	March 31, 2015	December 31, 2014
Raw materials	\$9,605	\$8,619
Work in process	3,052	2,896
Finished goods	5,991	5,909
	\$18,648	\$17,424

(8) Product Warranty

The Company's products carry limited warranties that typically 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 March 31, 2015 and December 31, 2014, the Company had accrued product warranty costs of \$1,714 and \$1,853, respectively.

The following table summarizes product warranty activity during 2015 and 2014:

	Three Months Ended	
	March 31,	
	2015	2014
Beginning balance	\$1,853	\$1,269
Charges to expense	57	434
Costs incurred	(196	) (336
Ending balance	\$1,714	\$1,367

(9) Debt

Long-term debt consists of the following:

	March 31,	December 31,
	2015	2014
Term note	62,563	63,781
Mortgage loan	3,231	3,268
Equipment loan	3,539	3,826
Total	69,333	70,875
Less amounts classified as current	6,198	6,188
Long-term debt, excluding current portion	\$63,135	\$64,687

Term Note and Line of Credit

On July 1, 2014, the Company entered into (i) a five-year senior credit facility agreement (the Credit Agreement) with Bank of America, N.A., as Administrative Agent, and the lenders named from time to time as parties thereto (the Lenders), for an aggregate amount of up to \$80,000, including a revolving credit facility (the Revolver) of up to \$15,000 and a term loan (Term Loan) of \$65,000 to be used for general corporate purposes, including both (A) the refinancing of the Company's \$30,000 then-outstanding indebtedness under its previous credit facility and (B) permitted acquisitions, (ii) revolving credit notes (together, the Revolving Credit Note) to evidence the Revolver, (iii) term notes (together, the Term Note, and together with the Revolving Credit Note, the Notes) to evidence the Term Loan, (iv) a Security Agreement (the Security Agreement) required by the Lenders with respect to the grant by the Company of a security interest in substantially all of the assets of the Company in order to secure the obligations of the Company under the Credit Agreement and the Notes, and (v) Pledge Agreements (the Pledge Agreements) required by the Lenders with respect to the grant by the Company of a security interest in 65% of the capital stock of each of KVH Industries A/S and KVH Industries U.K. Limited held by the Company in order to secure the obligations of the Company under the Credit Agreement and the Notes.

The \$65,000 Term Note was executed on July 1, 2014 in connection with the acquisition of Videotel. See note 14 below for more information regarding the acquisition. Proceeds in the amount of \$35,000 were applied toward the payment of a portion of the purchase price for the acquired shares of Videotel, and proceeds in the amount of approximately \$30,000 were applied toward the refinancing of the then-outstanding balance of the Company's previous credit facility. The Company must make principal repayments on the Term Loan in the amount of approximately \$1,200 at the end of each of the first 8 three-month periods following the closing; thereafter, the Company must make principal repayments in the amount of approximately \$1,600 for each succeeding three-month period until the maturity of the loan on July 1, 2019. The Company made the first payment on this debt in September 2014. On the maturity date, the entire remaining principal balance of the loan, including any future loans under the Revolver, is due and payable, together with all accrued and unpaid interest, penalties and other amounts due and payable under the Credit Agreement. The Credit Agreement contains provisions requiring the mandatory prepayment of amounts outstanding under the Term Loan and the Revolver under specified circumstances, including (i) 100% of the net cash proceeds from certain dispositions to the extent not reinvested in the Company's business within a stated period, (ii) 50% of the net cash proceeds from stated equity issuances and (iii) 100% of the net cash proceeds from

certain receipts of more than \$250 outside the ordinary course of business. The prepayments are first applied to the Term Loan, in inverse order of maturity, and then to the Revolver. In the discretion of the Administrative Agent, certain mandatory prepayments made on the Revolver can permanently reduce the amount of credit available under the Revolver.

Loans under the Credit Agreement bear interest at varying rates determined in accordance with the Credit Agreement. Each LIBOR Rate Loan, as defined in the Credit Agreement, bears interest on the outstanding principal amount thereof for each

interest period from the applicable borrowing date at a rate per annum equal to the LIBOR Daily Floating Rate or LIBOR Monthly Floating Rate, each as defined in the Credit Agreement, as applicable, plus the Applicable Rate, as defined in the Credit Agreement, and each Base Rate Loan, as defined in the Credit Agreement, bears interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate, as defined in the Credit Agreement, plus the Applicable Rate. The Applicable Rate ranges from 1.50% to 2.25%, depending on the Company's Consolidated Leverage Ratio, as defined in the Credit Agreement. The highest Applicable Rate applies when the Consolidated Leverage Ratio exceeds 2.00:1.00. Upon certain defaults, including failure to make payments when due, interest becomes payable at a higher default rate.

Borrowings under the Revolver are subject to the satisfaction of numerous conditions precedent at the time of each borrowing, including the continued accuracy of the Company's representations and warranties and the absence of any default under the Credit Agreement. As of March 31, 2015, there were no borrowings outstanding under the Revolver. The Credit Agreement contains two financial covenants, a Maximum Consolidated Leverage Ratio and a Minimum Consolidated Fixed Charge Coverage Ratio, each as defined in the Credit Agreement. The Maximum Consolidated Leverage Ratio was initially 2.25:1.00 and declined to 1.50:1.00 on December 31, 2014 and declines to 1.00:1.00 on September 30, 2015. The Minimum Consolidated Fixed Charge Coverage Ratio may not be less than 1.25:1.00 at any time after December 31, 2014. The Company was in compliance with these financial ratio debt covenants as of March 31, 2015. The Credit Agreement imposes certain other affirmative and negative covenants, including without limitation covenants with respect to the payment of taxes and other obligations, compliance with laws, entry into material contracts, creation of liens, incurrence of indebtedness, investments, dispositions, fundamental changes, restricted payments, changes in the nature of the Company's business, transactions with affiliates, corporate and accounting changes, and sale and leaseback arrangements.

The Company's obligation to repay loans under the Credit Agreement could be accelerated upon a default or event of default under the terms of the Credit Agreement, including certain failures to pay principal or interest when due, certain breaches of representations and warranties, the failure to comply with the Company's affirmative and negative covenants under the Credit Agreement, a change of control of the Company, certain defaults in payment relating to other indebtedness, the acceleration of payment of certain other indebtedness, certain events relating to the liquidation, dissolution, bankruptcy, insolvency or receivership of the Company, the entry of certain judgments against the Company, certain events relating to the impairment of collateral or the Lenders' security interest therein, and any other material adverse change with respect to the Company.

Mortgage Loan

On April 6, 2009, the Company entered into a mortgage loan in the amount of \$4,000 related to its headquarters facility in Middletown, Rhode Island. On June 9, 2011, the Company entered into an amendment to the mortgage loan. The loan term is ten years, with a principal amortization of 20 years, and the interest rate will be a rate per year adjusted periodically based on a defined interest period equal to the BBA LIBOR Rate plus 2.00 percentage points. Land, building and improvements with an approximate carrying value of \$5,000 as of March 31, 2015 secure the mortgage loan. The monthly mortgage payment is approximately \$12 plus interest and increases in increments of approximately \$1 each year throughout the life of the mortgage. Due to the difference in the term of the loan and amortization of the principal, a balloon payment of \$2,551 is due on April 1, 2019. The loan contains one financial covenant, a Fixed Charge Coverage Ratio, which applies in the event that the Company's consolidated cash, cash equivalents and marketable securities balance falls below \$25,000 at any time. As the Company's consolidated cash, cash equivalents, and marketable securities balance was above the minimum threshold throughout the three months ended March 31, 2015, the Fixed Charge Coverage Ratio did not apply. Under the mortgage loan the Company may prepay its outstanding loan balance subject to certain early termination charges as defined in the mortgage loan agreement. If the Company were to default on its mortgage loan, the land, building and improvements would be used as collateral. As discussed in Note 17 to the consolidated financial statements, 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 that are intended to hedge its mortgage interest obligations 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.

Equipment Loan

On January 30, 2013, the Company borrowed \$4,700 from a bank and pledged as collateral six satellite hubs and related equipment, including three hubs purchased in 2012. The term of the equipment loan is five years, and the loan bears interest at a fixed rate of 2.76% per annum. The monthly payment is approximately \$83, including interest expense. On December 30, 2013, the Company borrowed \$1,200 from a bank and pledged as collateral one satellite hub and related equipment. The term of the equipment loan is five years, and the loan bears interest at a fixed rate of 3.08% per annum. The monthly payment is approximately \$21, including interest expense.

(10) 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, and automotive communication equipment and satellite-based voice, television and Broadband Internet connectivity services; the distribution of commercially licensed news, sports, movies, and music content for commercial and leisure customers in the maritime, hotel, and retail markets; and the distribution of training films and e-Learning computer-based training courses to commercial customers in the maritime market.

Guidance and stabilization sales and services include sales of defense-related and commercial navigation and guidance and stabilization equipment based upon digital compass and FOG 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:

Three months ended March 31, 2015	Sales Originating From		
	Americas	Europe and Asia	Total
Mobile communication sales to the United States	\$22,046	\$435	\$22,481
Mobile communication sales to Canada	255	16	271
Mobile communication sales to Europe	98	5,039	5,137
Mobile communication sales to other geographic areas	1,334	7,020	8,354
Guidance and stabilization sales to the United States	1,085	—	1,085
Guidance and stabilization sales to Canada	2,210	—	2,210
Guidance and stabilization sales to Europe	847	—	847
Guidance and stabilization sales to other geographic areas	920	—	920
Intercompany sales	1,168	798	1,966
Subtotal	29,963	13,308	43,271
Eliminations	(1,168	) (798	) (1,966
Net sales	\$28,795	\$12,510	\$41,305
Segment net loss	\$(1,154	) \$(268	) \$(1,422
Depreciation and amortization	\$1,176	\$1,953	\$3,129
Total assets	\$142,814	\$82,307	\$225,121

