

KVH INDUSTRIES INC \DE\  
Form 10-Q  
May 04, 2018  
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, 2018

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 (I.R.S. Employer  
Incorporation or Organization) 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  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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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 2, 2018	Common Stock, par value \$0.01 per share	17,506,737

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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, 2018	December 31, 2017
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 37,768	\$ 34,596
Marketable securities	3,332	8,319
Accounts receivable, net of allowance for doubtful accounts of \$2,709 and \$2,852 as of March 31, 2018 and December 31, 2017, respectively	28,550	28,316
Inventories	23,327	22,732
Prepaid expenses and other current assets	4,419	3,816
Current contract assets	3,305	—
Total current assets	100,701	97,779
Property and equipment, less accumulated depreciation of \$52,767 and \$51,099 as of March 31, 2018 and December 31, 2017, respectively	48,145	43,521
Intangible assets, less accumulated amortization of \$21,770 and \$20,656 as of March 31, 2018 and December 31, 2017, respectively	14,587	15,120
Goodwill	34,996	33,872
Other non-current assets	6,437	5,927
Non-current contract assets	6,272	—
Non-current deferred income tax asset	214	20
Total assets	\$ 211,352	\$ 196,239
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 17,144	\$ 15,736
Accrued compensation and employee-related expenses	4,531	5,358
Accrued other	9,583	9,210
Accrued product warranty costs	2,027	2,074
Deferred revenue	—	6,919
Current portion of long-term debt	2,484	2,482
Contract liabilities	11,973	—
Liability for uncertain tax positions	1,631	1,570
Total current liabilities	49,373	43,349
Other long-term liabilities	2,414	19
Long-term contract liabilities	8,301	—
Long-term debt, excluding current portion	41,701	44,572
Non-current deferred income tax liability	2,729	2,634
Total liabilities	\$ 104,518	\$ 90,574
Commitments and contingencies (Notes 2, 10, 12, and 19)		
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; 18,804,066 and 18,787,816 shares issued at March 31, 2018 and December 31, 2017, respectively; and 17,521,644 and 17,128,825 shares outstanding at March 31, 2018 and December 31, 2017, respectively	188	188

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Additional paid-in capital	136,718	134,361
Accumulated deficit	(11,058 )	(4,417 )
Accumulated other comprehensive loss	(8,850 )	(11,317 )
	116,998	118,815
Less: treasury stock at cost, common stock, 1,282,422 and 1,658,991 shares as of March 31, 2018 and December 31, 2017, respectively	(10,164 )	(13,150 )
Total stockholders' equity	106,834	105,665
Total liabilities and stockholders' equity	\$ 211,352	\$ 196,239

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,	
	2018	2017
Sales:		
Product	\$13,992	\$14,863
Service	26,109	25,348
Net sales	40,101	40,211
Costs and expenses:		
Costs of product sales	8,923	10,539
Costs of service sales	13,816	13,268
Research and development	3,934	3,947
Sales, marketing and support	8,941	8,740
General and administrative	7,667	8,187
Total costs and expenses	43,281	44,681
Loss from operations	(3,180 )	(4,470 )
Interest income	148	166
Interest expense	409	353
Other expense, net	(274 )	(68 )
Loss before income tax expense	(3,715 )	(4,725 )
Income tax expense	178	160
Net loss	\$(3,893 )	\$(4,885 )
Net loss per common share		
Basic and diluted	\$(0.23 )	\$(0.30 )
Weighted average number of common shares outstanding:		
Basic and diluted	16,742	16,261

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,	
	2018	2017
Net loss	\$(3,893)	\$(4,885)
Other comprehensive income, net of tax:		
Unrealized gain on available-for-sale securities	1	—
Foreign currency translation adjustment	2,444	601
Unrealized gain on derivative instruments, net	22	27
Other comprehensive income, net of tax <sup>(1)</sup>	2,467	628
Total comprehensive loss	\$(1,426)	\$(4,257)

(1) Tax impact was nominal for all periods.

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,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(3,893 )	\$(4,885 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	28	74
Depreciation and amortization	3,050	2,761
Deferred income taxes	9	—
Loss on sale of fixed assets	—	3
Compensation expense related to stock-based awards and employee stock purchase plan	853	960
Unrealized currency translation loss	40	12
Changes in operating assets and liabilities:		
Accounts receivable	(91 )	4,160
Inventories	(558 )	(1,009 )
Prepaid expenses, other current assets, and current contract assets	(651 )	(203 )
Other non-current assets and non-current contract assets	(836 )	(269 )
Accounts payable	1,067	1,724
Deferred revenue, contract liabilities, and long-term contract liabilities	1,094	454
Accrued compensation, product warranty, and other	(1,303 )	849
Other long-term liabilities	(6 )	(286 )
Net cash (used in) provided by operating activities	\$(1,197 )	\$4,345
Cash flows from investing activities:		
Capital expenditures	(3,189 )	(2,047 )
Cash paid for acquisition of intangible asset	—	(50 )
Purchases of marketable securities	(1,026 )	(1,385 )
Maturities and sales of marketable securities	6,013	10,354
Net cash provided by investing activities	\$1,798	\$6,872
Cash flows from financing activities:		
Repayments of long-term debt	(44 )	(1,518 )
Repayments of term note borrowings	(2,825 )	(7,625 )
Payment of employee restricted stock withholdings	—	(392 )
Proceeds from stock options exercised and employee stock purchase plan	—	1,060
Sale of treasury stock	4,500	—
Payment of capital lease	(107 )	—
Net cash provided by (used in) financing activities	\$1,524	\$(8,475 )
Effect of exchange rate changes on cash and cash equivalents	1,047	221
Net increase in cash and cash equivalents	3,172	2,963
Cash and cash equivalents at beginning of period	34,596	26,422
Cash and cash equivalents at end of period	\$37,768	\$29,385
Supplemental disclosure of non-cash investing activities:		
Changes in accrued other and accounts payable related to property and equipment additions	\$537	\$169
Deferred purchase price consideration related to asset acquisition included in accrued expenses	\$—	\$50

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) is a leading manufacturer of solutions that provide global high-speed Internet, television, and voice services via satellite to mobile users at sea and on land. KVH is also a leading provider of commercially licensed entertainment, including news, sports, music, and movies, to commercial and leisure customers in the maritime, hotel, and retail markets. In addition, the Company develops and distributes training films and eLearning computer-based training courses to commercial maritime customers. KVH is also a premier manufacturer of high-performance navigational sensors and integrated inertial systems for defense and commercial applications. KVH's reporting segments are as follows:

- the mobile connectivity segment and
- the inertial navigation segment

KVH's mobile connectivity products enable customers to receive voice services, 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 connectivity products through an extensive international network of dealers and distributors. KVH also sells and leases products directly to end users. In October 2017, KVH introduced a new 60-cm diameter TracPhone V7-HTS Ku-band antenna which is designed to deliver faster data speeds globally to the maritime market. KVH is able to offer download/upload speeds as fast as 10 Mbps/3 Mbps by combining KVH's proprietary antenna system design and industry-leading mini-VSAT Broadband network, along with partnering with Intelsat Epic satellite services for high throughput satellite (HTS) capabilities and additional capacity from SKY Perfect JSAT satellites. With the HTS network, the Company added an additional 25 million square miles to our global maritime Ku-band high-speed connectivity footprint.

KVH's mobile connectivity service sales primarily represent 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 VoIP services, to its TracPhone V-series customers. In the second quarter of 2017, the Company launched a new mini-VSAT Broadband service offering, AgilePlans, which is a monthly subscription model providing global connectivity to commercial maritime customers, including hardware, installation, broadband Internet, Voice over Internet Protocol (VoIP), entertainment and training content and global support for a monthly fee with no minimum commitment. KVH offers AgilePlans customers a variety of airtime data plans with varying data speeds and fixed data usage levels with overage charges per megabyte, which is similar to the plans that the Company offers to its other customers. The Company recognizes the monthly subscription fee as service revenue over the service delivery period. The Company retains ownership of the hardware that it provides to AgilePlans customers, who must return the hardware to KVH if they decide to terminate the service. Because KVH does not sell the hardware under AgilePlans, the Company does not recognize any product revenue when the hardware is deployed to an AgilePlans customer. KVH records the cost of the hardware used by AgilePlans customers as revenue-generating assets and depreciates the cost over an estimated useful life of five years. Since the Company is retaining ownership of the hardware, it does not accrue any warranty costs for AgilePlans hardware; however, any maintenance costs on the hardware are expensed in the period these costs are incurred. Mobile connectivity service 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, and the distribution of training films and eLearning 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). 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 connectivity service sales also include engineering services provided under development contracts, sales from product repairs, and extended warranty sales.

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KVH's inertial navigation products offer precision fiber optic gyro (FOG)-based systems that enable platform and optical stabilization, navigation, pointing and guidance. KVH's inertial navigation 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 inertial navigation 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 inertial navigation technology is 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 inertial navigation 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, 2017 filed on March 2, 2018 with the Securities and Exchange Commission. The results for the three months ended March 31, 2018 are not necessarily indicative of operating results for the remainder of the year.

### Significant Estimates and Assumptions and Other Significant Non-Recurring Transactions

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, valuations and deferred purchase price consideration related to asset acquisition, expected future cash flows including growth rates, discount rates, terminal values and other assumptions and estimates used to evaluate the recoverability of long-lived assets and goodwill, estimated fair values of long-lived assets, including goodwill, amortization methods and periods, certain accrued expenses and other related charges, stock-based compensation, contingent liabilities, key valuation assumptions for its share-based awards, estimated fulfillment costs for warranty obligations, tax reserves and recoverability of the Company's net deferred tax assets and related valuation allowance. The Company has reviewed these estimates and determined that these remain the most significant estimates for the three months ended March 31, 2018.

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 only material change to the significant accounting policies disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2017 was the Company's adoption of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers effective January 1, 2018. Please see footnote 16 for further discussion.

On February 27, 2018, the Company entered into a stock purchase agreement with SKY Perfect JSAT Corporation, or SJC, pursuant to which the Company agreed to sell 377 shares of treasury stock to SJC for a purchase price of \$11.95 per share, or an aggregate of \$4,500, in a private placement. The transaction closed on February 28, 2018.

During the first quarter of 2018, the Company entered into a five-year capital lease for three satellite hubs for the HTS network. Please see footnote 19 for further discussion.

## (3) Accounting Standards Issued and Not Yet Adopted

## ASC Update No. 2016-02

In February 2016, the FASB issued ASC Update No. 2016-02, Leases (Topic 842). It is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. Update No. 2016-02 creates new accounting and reporting guidelines for leasing arrangements. The new guidance requires organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The guidance also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard is to be applied using a modified retrospective approach. The Company is currently evaluating the impact of the new pronouncement on its financial statements. Based on its preliminary assessment, upon adoption the Company expects to recognize significant right-to-use assets and corresponding lease liabilities on its balance sheet related to leased facilities and equipment.

## ASC Update No. 2016-13

In June 2016, the FASB issued ASC Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The update is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. The purpose of Update No. 2016-13 is to replace the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. The adoption of Update No. 2016-13 is not expected to have a material impact on the Company's financial position or results of operations.

## ASC Update No. 2017-12

In August 2017, the FASB issued ASC Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The update is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. The purpose of Update No. 2017-12 is to improve the presentation and disclosure requirements for, and simplify the application and increase transparency of hedge accounting. The adoption of Update No. 2017-12 is not expected to have a material impact on the Company's financial position or results of operations.

There are no other recent accounting pronouncements issued by the FASB that are expected to have a material impact on the Company's financial statements.

## (4) Marketable Securities

Marketable securities as of March 31, 2018 and December 31, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Money market mutual funds	\$ 3,332	\$	—\$	—\$3,332
Total marketable securities designated as available-for-sale	\$ 3,332	\$	—\$	—\$3,332
December 31, 2017	Amortized	Gross	Gross	Fair

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	Cost	Unrealized Gains	Unrealized Losses	Value
Money market mutual funds	\$ 7,318	\$ —	\$ —	\$7,318
Certificates of deposit	1,002	—	(1 )	1,001
Total marketable securities designated as available-for-sale	\$ 8,320	\$ —	\$ (1 )	\$8,319

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The amortized costs and fair value of marketable securities as of March 31, 2018 and December 31, 2017 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.

	Amortized Cost	Fair Value
March 31, 2018		
Due in less than one year	\$ —	\$—
December 31, 2017		
Due in less than one year	\$ 1,002	\$1,001

Interest income from marketable securities was \$12 and \$31 during the three months ended March 31, 2018 and 2017, respectively.

## (5) Stockholder's Equity

### (a) Stock Equity and Incentive Plan

The Company recognizes stock-based compensation in accordance with the provisions of ASC Topic 718, Compensation--Stock Compensation. Stock-based compensation expense, excluding compensation charges related to our employee stock purchase plan, or the ESPP, was \$843 and \$943 for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was \$1,586 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 2.83 years. As of March 31, 2018, there was \$3,379 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.30 years.

### Stock Options

During the three months ended March 31, 2018, no stock options were exercised for common stock and, as a result, no shares of common stock were delivered to the Company as payment for the exercise price or related minimum tax withholding obligations. During the three months ended March 31, 2018, no stock options were granted and 11 stock options expired, were canceled or were forfeited. The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions utilized to determine the fair value of options granted during the three months ended March 31, 2017 were as follows:

	Three Months Ended March 31, 2017
Risk-free interest rate	1.96 %
Expected volatility	35.53 %
Expected life (in years)	4.22
Dividend yield	0 %

As of March 31, 2018, there were 1,057 options outstanding with a weighted average exercise price of \$10.04 per share and 338 options exercisable with a weighted average exercise price of \$12.35 per share.

### Restricted Stock



During the three months ended March 31, 2018, 20 shares of restricted stock were granted with a weighted average grant date fair value of \$10.00 per share and no shares of restricted stock were forfeited. Additionally, during the three months ended March 31, 2018, 188 shares of restricted stock vested, none of which were surrendered to the Company as payment by employees in lieu of cash to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock. As of March 31, 2018, there were 432 shares of restricted stock outstanding that were subject to service-based vesting conditions.

As of March 31, 2018, the Company had no unvested outstanding options and no shares of restricted stock that were subject to performance-based or market-based vesting conditions.

## (b) Employee Stock Purchase Plan

The Company's Amended and Restated 1996 Employee Stock Purchase Plan (ESPP) affords eligible employees the right to purchase common stock, via payroll deductions, through various offering periods at a purchase price equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. During the three months ended March 31, 2018 and 2017, no shares were issued under the ESPP plan. The Company recorded compensation charges of \$10 and \$17 for the three months ended March 31, 2018 and 2017, respectively, related to the ESPP.

## (c) Stock-Based Compensation Expense

The following table presents stock-based compensation expense, including under the ESPP, in the Company's consolidated statements of operations for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018 2017	
Cost of product sales	\$71	\$82
Cost of service sales	—	—
Research and development	170	189
Sales, marketing and support	181	268
General and administrative	431	421
	\$853	\$960

## (d) Accumulated Other Comprehensive Loss

Comprehensive income (loss) includes net earnings (loss), unrealized gains and losses from foreign currency translation, unrealized gains and losses from available for sale marketable securities and changes in fair value related to interest rate swap derivative instruments, net of tax attributes. The components of the Company's comprehensive income (loss) and the effect on earnings for the periods presented are detailed in the accompanying consolidated statements of comprehensive income (loss).

	Foreign Currency Translation	Unrealized (Loss) Gain on Available for Sale Marketable Securities	Interest Rate Swaps	Total Accumulated Other Comprehensive Loss
Balance, December 31, 2017	(11,247 )	(1 )	(69 )	(11,317 )
Other comprehensive income before reclassifications	2,444	1	7	2,452
Amounts reclassified from AOCI to Other income, net	—	—	15	15
Net other comprehensive income, March 31, 2018	2,444	1	22	2,467
Balance, March 31, 2018	(8,803 )	—	(47 )	(8,850 )

	Foreign Currency Translation	Unrealized Gain (Loss) on Available for Sale Marketable Securities	Interest Rate Swaps	Total Accumulated Other Comprehensive Loss
Balance, December 31, 2016	\$(16,651 )	\$ —	—\$(158)	\$ (16,809 )
Other comprehensive income before reclassifications	601	—	5	606
Amounts reclassified from AOCI to Other income, net	—	—	22	22
Net other comprehensive income, March 31, 2017	601	—	27	628
Balance, March 31, 2017	(16,050 )	—	(131 )	(16,181 )

For additional information, see Note 4, "Marketable Securities," and Note 17, "Derivative Instruments and Hedging Activities."

## (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, 2018 and 2017, since there was a net loss, the Company excluded 251 and 203, respectively, in 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,	
	2018	2017
Weighted average common shares outstanding—basic	16,742	16,261
Dilutive common shares issuable in connection with stock plans	—	—
Weighted average common shares outstanding—diluted	16,742	16,261

## (7) Inventories

Inventories are stated at the lower of cost and net realizable value using the first-in first-out costing method. Inventories as of March 31, 2018 and December 31, 2017 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	March 31, December 31,	
	2018	2017
Raw materials	\$ 13,835	\$ 13,347
Work in process	2,926	2,137
Finished goods	6,566	7,248
	\$ 23,327	\$ 22,732

## (8) Property and Equipment

Property and equipment, net, as of March 31, 2018 and December 31, 2017 consist of the following:

	March 31, 2018	December 31, 2017
Land	\$3,828	\$3,828
Building and improvements	24,042	24,038
Leasehold improvements	475	429
Machinery and equipment	24,465	24,764
Revenue-generating assets	34,880	28,453
Office and computer equipment	13,171	13,057
Motor vehicles	51	51
	100,912	94,620
Less accumulated depreciation	(52,767 )	(51,099 )
	\$48,145	\$43,521

Depreciation expense was \$1,953 and \$1,693 for the three months ended March 31, 2018 and 2017, respectively.

Certain revenue-generating hardware assets are utilized by the Company in the delivery of the Company's airtime services, media, and other content. These revenue-generating assets were previously included in machinery and equipment, which are now presented separately.

## (9) Product Warranty

The Company's products carry standard limited warranties that range from one to two 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 consolidated statements of operations. As of March 31, 2018 and December 31, 2017, the Company had accrued product warranty costs of \$2,027 and \$2,074, respectively.

The following table summarizes product warranty activity during 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Beginning balance	\$2,074	\$2,280
Charges to expense	741	237
Costs incurred	(788 )	(122 )
Ending balance	\$2,027	\$2,395

## (10) Debt

Long-term debt consisted of the following:

	March 31,	December 31,
	2018	2017
Term note	\$ 41,450	\$