

KVH INDUSTRIES INC \DE\
Form 10-Q
November 09, 2007
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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: September 30, 2007

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)

05-0420589
(IRS Employer

Identification Number)

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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
November 2, 2007	Common Stock, par value \$0.01 per share	15,070,078

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KVH INDUSTRIES, INC. AND SUBSIDIARY

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(in thousands, except share amounts, unaudited)

	September 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 15,663	\$ 15,781
Marketable securities	40,529	38,958
Accounts receivable, net of allowance for doubtful accounts of \$734 as of September 30, 2007 and \$693 as of December 31, 2006	10,135	10,556
Costs and estimated earnings in excess of billings on uncompleted contracts	40	183
Inventories	10,061	9,043
Prepaid expenses and other assets	774	680
Deferred income taxes	165	165
Total current assets	77,367	75,366
Property and equipment, net	11,489	9,569
Other non-current assets	52	155
Deferred income taxes	3,334	3,334
Total assets	\$ 92,242	\$ 88,424
Current liabilities:		
Accounts payable	\$ 4,013	\$ 2,639
Accrued compensation and employee-related expenses	2,029	2,783
Accrued other	2,443	1,748
Accrued professional services	310	539
Accrued product warranty costs	729	539
Current portion of long-term debt	130	123
Total current liabilities	9,654	8,371
Long-term debt excluding current portion	2,060	2,158
Deferred revenue	15	99
Total liabilities	11,729	10,628
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; none issued		
Common stock, \$0.01 par value. Authorized 20,000,000 shares; issued and outstanding 15,068,153 as of September 30, 2007 and 14,866,212 as of December 31, 2006	151	149
Additional paid-in capital	90,740	88,511
Accumulated deficit	(9,293)	(10,830)
Accumulated other comprehensive loss	(1)	(34)

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	81,597	77,796
Less: treasury stock at cost, common stock, 112,800 shares as of September 30, 2007 and 0 shares as of December 31, 2006	(1,084)	
Total stockholders equity	80,513	77,796
Total liabilities and stockholders equity	\$ 92,242	\$ 88,424

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**KVH INDUSTRIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share amounts, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 17,566	\$ 19,291	\$ 61,211	\$ 61,548
Cost of sales	10,579	11,717	36,765	36,559
Gross profit	6,987	7,574	24,446	24,989
Operating expenses:				
Sales, marketing and support	3,534	3,441	11,324	10,714
Research and development	2,258	1,627	6,986	5,770
General and administrative	1,977	2,447	6,100	6,132
Income (loss) from operations	(782)	59	36	2,373
Other income (expense):				
Interest income, net	662	591	1,955	1,559
Other income (expense)	27	8	(15)	(17)
Income (loss) before income taxes	(93)	658	1,976	3,915
Income tax benefit (expense)	73	(32)	(438)	(349)
Net income (loss)	\$ (20)	\$ 626	\$ 1,538	\$ 3,566
Per share information:				
Net income (loss) per share				
Basic and diluted	\$ 0.00	\$ 0.04	\$ 0.10	\$ 0.24
Number of shares used in per share calculation:				
Basic	15,005	14,827	14,977	14,762
Diluted	15,005	14,965	15,001	14,894

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**KVH INDUSTRIES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands, unaudited)

	Nine months ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 1,538	\$ 3,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,593	1,489
Deferred income taxes		39
Compensation expense related to stock options and employee stock purchase plan	878	830
Provision (recovery) for doubtful accounts, net	67	(11)
Loss on foreign currency forward exchange contracts	204	94
Gain on disposal of equipment		(23)
Changes in operating assets and liabilities:		
Accounts receivable	354	1,709
Costs and estimated earnings in excess of billings on uncompleted contracts	143	(234)
Inventories	(1,018)	(1,571)
Prepaid expenses and other assets	(94)	74
Accounts payable	996	(1,628)
Accrued expenses	(290)	1,199
Deferred revenue	(84)	(24)
Net cash provided by operating activities	4,287	5,509
Cash flows from investing activities:		
Purchase of marketable securities	(54,206)	(33,213)
Maturities and sales of marketable securities	52,668	30,801
Capital expenditures	(3,136)	(2,424)
Proceeds from sale of equipment		27
Other non-current assets	103	9
Net cash used in investing activities	(4,571)	(4,800)
Cash flows from financing activities:		
Repayments of long term debt	(91)	(86)
Proceeds from stock options and employee stock purchase plan	1,349	1,449
Payment of stock registration fees	(8)	
Repurchase of common stock	(1,084)	
Net cash provided by financing activities	166	1,363
Net (decrease) increase in cash and cash equivalents	(118)	2,072
Cash and cash equivalents at beginning of period	15,781	14,160
Cash and cash equivalents at end of period	\$ 15,663	\$ 16,232
Supplemental disclosure of noncash investing activity:		
Change in accounts payable related to fixed asset additions	\$ 378	\$
Supplemental disclosure of noncash finance activity:		

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Employee stock purchase plan activity	\$	12	\$	
Common stock received for option exercise	\$	244	\$	152
Retirement of treasury stock	\$	244	\$	152

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARY

Notes to Condensed 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 land mobile and marine markets, and navigation, guidance and stabilization products for both defense and commercial markets.

KVH's mobile communications products enable customers to receive live digital television, telephone and Internet services in their marine vessels, recreational vehicles and automobiles while in motion via satellite and wireless services. KVH sells its mobile communications products through an extensive international network of retailers, distributors and dealers.

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

(2) Basis of Presentation

The accompanying condensed consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiary, KVH Europe A/S (collectively, KVH or the Company), have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission regarding interim financial reporting. Given that KVH Europe A/S operates as the Company's European and international distributor, all of its operating expenses are reflected within sales, marketing and support within the accompanying condensed consolidated statements of operations. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation. The condensed consolidated financial statements have not been audited by our independent registered public accounting firm, but 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 condensed 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 filed on March 16, 2007 with the Securities and Exchange Commission. The results for the three and nine months ended September 30, 2007 are not necessarily indicative of operating results for the remainder of the year.

(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 revenues 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, deferred tax assets, certain accrued expenses 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 Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment . Stock-based compensation expense was \$352 and \$364 for the three months ended September 30, 2007 and September 30, 2006, respectively and \$878 and \$830 for the nine months