

KVH INDUSTRIES INC \DE\
Form 10-Q
August 04, 2017
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: June 30, 2017

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
August 2, 2017	Common Stock, par value \$0.01 per share	17,088,206

KVH INDUSTRIES, INC. AND SUBSIDIARIES
Form 10-Q
INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS</u>	
Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	<u>3</u>
Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited)	<u>4</u>
Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016 (unaudited)	<u>5</u>
Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)	<u>6</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>28</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>41</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>42</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>43</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>60</u>
<u>ITEM 6. EXHIBITS</u>	<u>61</u>
<u>SIGNATURE</u>	<u>62</u>
<u>EXHIBIT INDEX</u>	<u>63</u>

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share and share amounts)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,431	\$ 26,422
Marketable securities	13,771	25,712
Accounts receivable, net of allowance for doubtful accounts of \$2,820 and \$3,477 as of June 30, 2017 and December 31, 2016, respectively	27,068	31,152
Inventories	23,412	20,745
Prepaid expenses and other current assets	4,863	4,801
Total current assets	99,545	108,832
Property and equipment, less accumulated depreciation of \$48,514 and \$45,766 as of June 30, 2017 and December 31, 2016, respectively	41,754	36,586
Intangible assets, less accumulated amortization of \$18,514 and \$16,344 as of June 30, 2017 and December 31, 2016, respectively	16,657	17,838
Goodwill	32,802	31,343
Other non-current assets	5,751	5,134
Non-current deferred income tax asset	24	24
Total assets	\$ 196,533	\$ 199,757
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,781	\$ 8,436
Accrued compensation and employee-related expenses	6,020	4,766
Accrued other	8,094	8,317
Accrued product warranty costs	2,407	2,280
Deferred revenue	9,906	6,661

Current portion of long-term debt	2,477		7,900	
Liability for uncertain tax positions	1,356		1,283	
Total current liabilities	42,041		39,643	
Other long-term liabilities	33		326	
Long-term debt, excluding current portion	45,815		50,153	
Non-current deferred income tax liability	3,302		3,133	
Total liabilities	\$	91,191	\$	93,255
Commitments and contingencies (Note 12)				
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; 18,722,987 and 18,420,914 shares issued at June 30, 2017 and December 31, 2016, respectively; and 17,063,996 and 16,761,923 shares outstanding at June 30, 2017 and December 31, 2016, respectively	187		184	
Additional paid-in capital	132,325		129,660	
(Accumulated deficit) retained earnings	(294)	6,617	
Accumulated other comprehensive loss	(13,726)	(16,809)
	118,492		119,652	
Less: treasury stock at cost, common stock, 1,658,991 shares as of June 30, 2017 and December 31, 2016	(13,150)	(13,150)
Total stockholders' equity	105,342		106,502	
Total liabilities and stockholders' equity	\$	196,533	\$	199,757

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Sales:				
Product	\$14,323	\$20,062	\$29,186	\$35,444
Service	26,126	25,904	51,474	50,902
Net sales	40,449	45,966	80,660	86,346
Costs and expenses:				
Costs of product sales	9,295	12,989	19,834	23,659
Costs of service sales	13,094	13,259	26,362	26,250
Research and development	3,761	4,037	7,708	7,820
Sales, marketing and support	8,124	9,234	16,864	17,892
General and administrative	7,543	7,140	15,730	14,792
Total costs and expenses	41,817	46,659	86,498	90,413
Loss from operations	(1,368)	(693)	(5,838)	