KVH INDUSTRIES INC \DE\
Form 10-Q
August 02, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2018
OR
o 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 ý No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No o

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 o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

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

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
July 31, 2018	Common Stock, par value $0.01 per share	17,664,348

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 and share amounts)

	June 30, 2018 (unaudited)		December 31, 2017	
ASSETS				
Current assets:				
Cash and cash equivalents	$	34,537	$	34,596
Marketable securities	335		8,319	
Accounts receivable, net of allowance for doubtful accounts of $2,489 and $2,852 as of June 30, 2018 and December 31, 2017, respectively	29,837		28,316	
Inventories	22,912		22,732	
Prepaid expenses and other current assets	3,339		3,816	
Current contract assets	3,419		—	
Total current assets	94,379		97,779	
Property and equipment, less accumulated depreciation of $54,096 and $51,099 as of June 30, 2018 and December 31, 2017, respectively	50,069		43,521	
Intangible assets, less accumulated amortization of $22,799 and $20,656 as of June 30, 2018 and December 31, 2017, respectively	12,743		15,120	
Goodwill	33,237		33,872	
Other non-current assets	6,735		5,927	
Non-current contract assets	6,266		—	
Non-current deferred income tax asset	198		20	
Total assets	$	203,627	$	196,239
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	16,775	$	15,736
Accrued compensation and employee-related expenses	4,866		5,358	
Accrued other	8,289		9,210	
	2,039		2,074	

Accrued product warranty costs					
Deferred revenue	—			6,919	
Current portion of long-term debt	4,990			2,482	
Contract liabilities	11,051			—	
Liability for uncertain tax positions	1,444			1,570	
Total current liabilities	49,454			43,349	
Other long-term liabilities	2,213			19	
Long-term contract liabilities	8,374			—	
Long-term debt, excluding current portion	38,575			44,572	
Non-current deferred income tax liability	2,580			2,634	
Total liabilities	$	101,196		$	90,574
Commitments and contingencies (Note 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; 18,936,639 and 18,787,816 shares issued at June 30, 2018 and December 31, 2017, respectively; and 17,654,217 and 17,128,825 shares outstanding at June 30, 2018 and December 31, 2017, respectively	189			188	
Additional paid-in capital	137,508			134,361	
Accumulated deficit	(12,401	)		(4,417	)
Accumulated other comprehensive loss	(12,701	)		(11,317	)
	112,595			118,815	
Less: treasury stock at cost, common stock, 1,282,422 and 1,658,991 shares as of June 30, 2018 and December 31, 2017, respectively	(10,164	)		(13,150	)
Total stockholders' equity	102,431			105,665	
Total liabilities and stockholders' equity	$	203,627		$	196,239

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,		June 30,	
	2018	2017	2018	2017
Sales:				
Product	$16,162	$14,323	$30,154	$29,186
Service	27,230	26,126	53,339	51,474
Net sales	43,392	40,449	83,493	80,660
Costs and expenses:				
Costs of product sales	10,094	9,295	19,017	19,834
Costs of service sales	15,498	13,094	29,314	26,362
Research and development	3,565	3,761	7,499	7,708
Sales, marketing and support	8,494	8,124	17,435	16,864
General and administrative	6,928	7,543	14,595	15,730
Total costs and expenses	44,579	41,817	87,860	86,498
Loss from operations	(1,187)	(1,368)	(4,367)	(5,838)
Interest income	155	159	303	325
Interest expense	428	349	837	702
Other income (expense), net	446	(112)	172	(180)
Loss before income tax expense	(1,014)	(1,670)	(4,729)	(6,395)
Income tax expense	329	356	507	516
Net loss	$(1,343)	$(2,026)	$(5,236)	$(6,911)
Net loss per common share				
Basic and diluted	$(0.08)	$(0.12)	$(0.31)	$(0.42)
Weighted average number of common shares outstanding:				
Basic and diluted	17,140	16,446	16,942	16,354

See accompanying Notes to Unaudited Consolidated Financial Statements.
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KVH INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(1,343)	$(2,026)	$(5,236)	$(6,911)
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on available-for-sale securities	—	(3)	1	(3)
Foreign currency translation adjustment	(3,866)	2,440	(1,422)	3,041
Unrealized gain on derivative instruments, net	15	18	37	45
Other comprehensive (loss) income, net of tax[1]	(3,851)	2,455	(1,384)	3,083
Total comprehensive (loss) income	$(5,194)	$429	$(6,620)	$(3,828)

(1) Tax impact was nominal for all periods.

See accompanying Notes to Unaudited Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(5,236)	$(6,911)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	129	294
Depreciation and amortization	6,288	5,477
Deferred income taxes	24	—
Loss on sale of fixed assets	—	3
Compensation expense related to stock-based awards and employee stock purchase plan	1,592	1,812
Unrealized currency translation gain	(212)	(119)
Changes in operating assets and liabilities:		
Accounts receivable	(1,719)	4,051
Inventories	(137)	(2,661)
Prepaid expenses, other current assets, and current contract assets	230	(49)
Other non-current assets and non-current contract assets	(1,252)	(577)
Accounts payable	908	2,345
Deferred revenue, contract liabilities, and long-term contract liabilities	527	3,004
Accrued compensation, product warranty, and other	(2,331)	397
Other long-term liabilities	(9)	(294)
Net cash (used in) provided by operating activities	$(1,198)	$6,772
Cash flows from investing activities:		
Capital expenditures	(7,461)	(6,809)
Cash paid for acquisition of intangible asset	—	(50)
Purchases of marketable securities	(2,036)	(7,348)
Maturities and sales of marketable securities	10,020	19,286
Net cash provided by investing activities	$523	$5,079
Cash flows from financing activities:		
Repayments of long-term debt	(89)	(1,561)
Repayments of term note borrowings	(3,400)	(8,200)
Payment of employee restricted stock withholdings	—	(392)
Proceeds from stock options exercised and employee stock purchase plan	101	1,268
Sale of treasury stock	4,500	—
Payment of capital lease	(258)	—
Net cash provided by (used in) financing activities	$854	$(8,885)
Effect of exchange rate changes on cash and cash equivalents	(238)	1,043
Net (decrease) increase in cash and cash equivalents	(59)	4,009
Cash and cash equivalents at beginning of period	34,596	26,422
Cash and cash equivalents at end of period	$34,537	$30,431
Supplemental disclosure of non-cash investing activities:		
Changes in accrued other and accounts payable related to property and equipment additions	$624	$1,452
Deferred purchase price consideration related to asset acquisition included in accrued expenses	$—	$50

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 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.

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 and six months ended June 30, 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 six months ended June 30, 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.

ASC Update No. 2018-07

In June 2018, the FASB issued ASC Update No. 2018-07, Compensation-Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting. The update is effective for annual periods beginning on or after December 15, 2018. Early adoption is permitted. The purpose of Update No. 2018-07 is to expands the scope of the employee share-based payments guidance to include share-based payments issued to nonemployees. The Company expects that the adoption of this standard will only affect, on a prospective basis, the manner in which the Company evaluates any changes to the terms or conditions of its share-based payment awards.

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.

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(4) Marketable Securities

Marketable securities as of June 30, 2018 and December 31, 2017 consisted of the following:

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market mutual funds	$ 335	$ —	$ —	$ 335
Total marketable securities designated as available-for-sale	$ 335	$ —	$ —	$ 335

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair 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

The amortized costs and fair value of marketable securities as of June 30, 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.

June 30, 2018	Amortized Cost	Fair Value
Due in less than one year	$ —	$—

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

Interest income from marketable securities was $3 and $30 during the three months ended June 30, 2018 and 2017, respectively, and $15 and $61 during the six months ended June 30, 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 $725 and $849 for the three months ended June 30, 2018 and 2017, respectively, and $1,568 and $1,792 for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was $2,861 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 3.14 years. As of June 30, 2018, there was $4,232 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.56 years.

Stock Options

During the three months ended June 30, 2018, 13 stock options were exercised for common stock. Additionally, during the three months ended June 30, 2018, 401 stock options were granted and 76 stock options expired, were canceled or were forfeited.

During the six months ended June 30, 2018, 13 stock options were exercised for common stock, none of which was delivered to the Company as payment for the exercise price or related minimum tax withholding obligations. Additionally, during the six months ended June 30, 2018, 401 stock options were granted with a weighted average grant date fair value of $3.82 per share and 87 stock options expired, were canceled or were forfeited. The Company has estimated 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 six months ended June 30, 2018 and 2017 were as follows:

	Six Months Ended June 30,	
	2018	2017
Risk-free interest rate	2.81 %	1.96 %
Expected volatility	36.60 %	35.53 %
Expected life (in years)	4.29	4.22
Dividend yield	0 %	0 %

As of June 30, 2018, there were 1,368 options outstanding with a weighted average exercise price of $10.37 per share and 395 options exercisable with a weighted average exercise price of $11.10 per share.

Restricted Stock

During the three months ended June 30, 2018, 134 shares of restricted stock were granted with a weighted average grant date fair value of $11.30 per share and 15 shares of restricted stock were forfeited. Additionally, during the three months ended June 30, 2018, 49 shares of restricted stock vested, of which no shares of common stock 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.

During the six months ended June 30, 2018, 154 shares of restricted stock were granted with a weighted average grant date fair value of $11.13 per share and 19 shares of restricted stock were forfeited. Additionally, during the six months ended June 30, 2018, 237 shares of restricted stock vested, of which no shares of common stock 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 and these shares were immediately retired.

As of June 30, 2018, there were 503 shares of restricted stock outstanding still subject to service-based vesting conditions.

As of June 30, 2018, the Company had 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 and six months ended June 30, 2018, no shares were issued under the ESPP plan. During the three and six months ended June 30, 2017, 26 and 26 shares were issued under the ESPP plan, respectively. The Company recorded compensation charges related to the ESPP of $14 and $3 for the three months ended June 30, 2018 and 2017, respectively, and $24 and $20 for the six months ended June 30, 2018 and 2017, respectively.

(c) Stock-Based Compensation Expense

The following table presents stock-based compensation expense, including expense for the ESPP, in the Company's consolidated statements of operations for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of product sales	$11	$72	$82	$154
Cost of service sales	—	1	—	1
Research and development	149	170	319	359
Sales, marketing and support	166	221	347	489
General and administrative	413	388	844	809
	$739	$852	$1,592	$1,812

(d) Accumulated Other Comprehensive Loss

Comprehensive income (loss) includes net income (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, which were not material. 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).

The balances for the three months ended June 30, 2018 and 2017 are as follows:

	Foreign Currency Translation	Unrealized Gain (Loss) on Available for Sale Marketable Securities	Interest Rate Swaps	Total Accumulated Other Comprehensive Loss
Balance, March 31, 2018	$ (8,803)	$ —	$ (47)	$ (8,850)
Other comprehensive (loss) income before reclassifications	(3,866)	—	3	(3,863)
Amounts reclassified from AOCI to Other income, net	—	—	12	12
Net other comprehensive (loss) income, June 30, 2018	(3,866)	—	15	(3,851)
Balance, June 30, 2018	$ (12,669)	$ —	$ (32)	$ (12,701)

	Foreign Currency Translation	Unrealized Gain (Loss) on Available for Sale Marketable Securities	Interest Rate Swaps	Total Accumulated Other Comprehensive Loss
Balance, March 31, 2017	$ (16,050)	$ —	$ (131)	$ (16,181)
Other comprehensive income (loss) before reclassifications	2,440	(3)	(1)	2,436
Amounts reclassified from AOCI to Other income, net	—	—	19	19
Net other comprehensive income (loss), June 30, 2017	2,440	(3)	18	2,455
Balance, June 30, 2017	$ (13,610)	$ (3)	$ (113)	$ (13,726)

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The balances for the six months ended June 30, 2018 and 2017 are as follows:

	Foreign Currency Translation	Unrealized Gain (Loss) 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 (loss) income before reclassifications	(1,422)	1	10	(1,411)
Amounts reclassified from AOCI to Other income, net	—	—	27	27
Net other comprehensive (loss) income, June 30, 2018	(1,422)	1	37	(1,384)
Balance, June 30, 2018	$ (12,669)	$ —	$ (32)	$ (12,701)

	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 (loss) before reclassifications	3,041	(3)	4	3,042
Amounts reclassified from AOCI to Other income, net	—	—	41	41
Net other comprehensive income (loss), June 30, 2017	3,041	(3)	45	3,083
Balance, June 30, 2017	$ (13,610)	$ (3)	$ (113)	$ (13,726)

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 and six months ended June 30, 2018, since there was a net loss, the Company excluded all 634 and 805, 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. For the three and six months ended June 30, 2017, since there was a net loss, the Company excluded all 1,207 and 960, 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average common shares outstanding—basic	17,140	16,446	16,942	16,354
Dilutive common shares issuable in connection with stock plans	—	—	—	—
Weighted average common shares outstanding—diluted	17,140	16,446	16,942	16,354

(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 June 30, 2018 and December 31, 2017 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	June 30, 2018	December 31, 2017
Raw materials	$13,387	$ 13,347
Work in process	2,812	2,137
Finished goods	6,713	7,248
	$22,912	$ 22,732

(8) Property and Equipment

Property and equipment, net, as of June 30, 2018 and December 31, 2017 consist of the following:

	June 30, 2018	December 31, 2017
Land	$3,828	$3,828
Building and improvements	24,082	24,038
Leasehold improvements	473	429
Machinery and equipment	24,958	24,764
Revenue-generating assets	37,246	28,453
Office and computer equipment	13,527	13,057
Motor vehicles	51	51
	104,165	94,620
Less accumulated depreciation	(54,096)	(51,099)
	$50,069	$43,521

Depreciation expense was $2,192 and $1,614 for the three months ended June 30, 2018 and 2017, respectively, and $4,145 and $3,307 for the six months ended June 30, 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 and are now presented separately.

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(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 June 30, 2018 and December 31, 2017, the Company had accrued product warranty costs of $2,039 and $2,074, respectively.

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

	Six Months Ended June 30,	
	2018	2017
Beginning balance	$2,074	$2,280
Charges to expense	1,156	500
Costs incurred	(1,191)	(373)
Ending balance	$2,039	$2,407

(10) Debt

Long-term debt consisted of the following:

	June 30, 2018	December 31, 2017
Term note	$40,875	$ 44,275
Mortgage loan	2,690	2,779
Total	43,565	47,054
Less amounts classified as current	4,990	2,482
Long-term debt, excluding current portion	$38,575	$ 44,572

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 to