

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The common stock of EMS Technologies, Inc. is traded on the NASDAQ Global Select Market (symbol ELMG). At March 19, 2010, there were approximately 400 shareholders of record, we believe that there were approximately 2,900 beneficial shareholders, based upon broker requests for distribution of Annual Meeting materials. The price range of the stock is shown below:

	<u>2009 Price Range</u>		<u>2008 Price Range</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$26.48	17.07	\$27.71	27.18
Second Quarter	21.45	16.93	22.29	21.63
Third Quarter	23.17	17.55	22.04	21.50
Fourth Quarter	20.37	12.00	26.72	25.00

We have never paid a cash dividend with respect to shares of our common stock, and have retained our earnings to provide cash for the operation and expansion of our business. We cannot currently declare or make any cash dividends without the consent of the lenders in our revolving credit agreement. Future dividends, if any, will be determined by the Board of Directors in light of the circumstances then existing, including our earnings and financial requirements and general business conditions.

The following table summarizes our repurchases of our common shares for the quarter ended December 31, 2009:

ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid Per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Program(1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)</u>
October 2009 (October 4 to October 31)	-		-	
November 2009 (November 1 to November 28)	-	-	-	
December 2009 (November 29 to December 31)	20,600	12.13	20,600	
Total	<u>20,600</u>	<u>\$ 12.13</u>	<u>20,600</u>	\$9.9 million

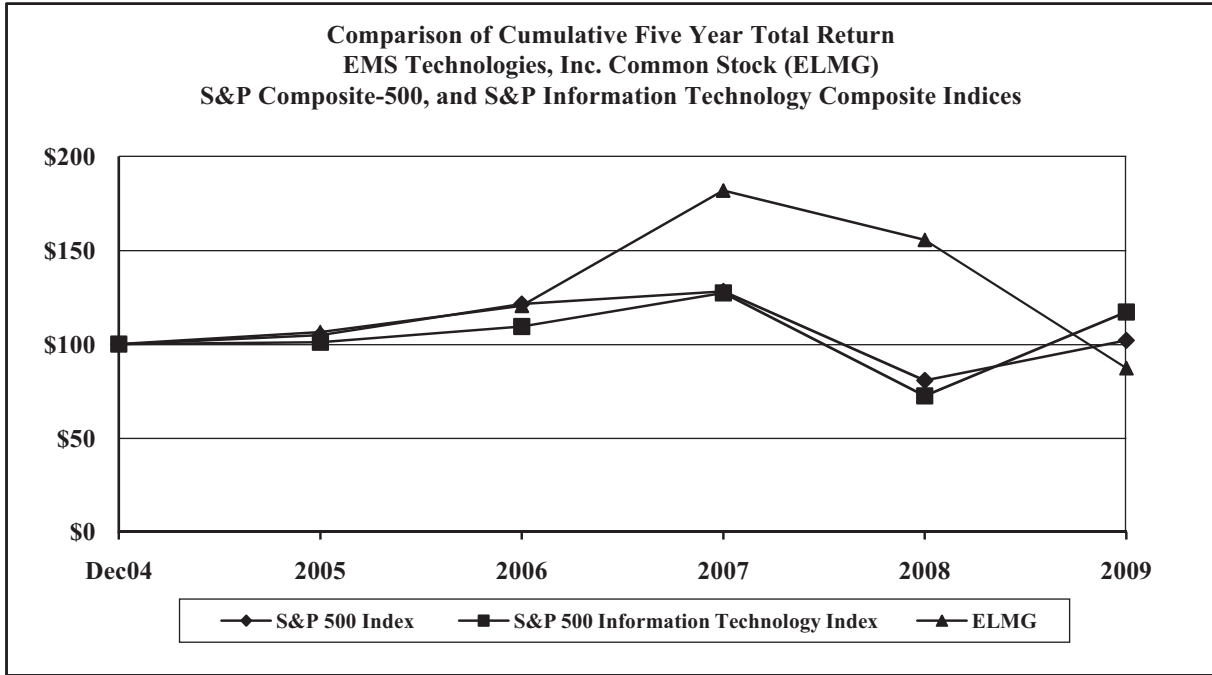
(1) This balance represents the number of shares that were repurchased under our \$20 million repurchase program (the Program) which was initially announced on July 30, 2008. Unless terminated earlier by resolution of our Board of Directors, the Program will expire when we have purchased all shares authorized for repurchase. The Program does not obligate us to repurchase any particular amount of common shares, and may be suspended or discontinued at any time without notice.

(2) This balance represents the value of shares that could be repurchased in the future under the Program as of December 31, 2009.

SHAREHOLDER RETURN

The following performance graph and supporting data were not filed as part of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. However, this information is furnished as part of the Company’s 2009 Annual Report to Shareholders to comply with the requirements of Item 201(e) of Regulation S-K.

The annual changes for the five-year period shown in the graph are based on the assumption that \$100 had been invested in the common stock of EMS Technologies, Inc. and each index on December 31, 2004.



Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data with respect to our operations. The data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto, which appear immediately following the signature page of this Annual Report on Form 10-K. The statement of operations data for each of the five years ended December 31, 2009, and the related balance sheet data have been derived from the audited consolidated financial statements (in thousands, except per share data).

	Years Ended December 31				
	2009	2008	2007	2006	2005
Net sales	\$ 359,972	335,045	287,879	261,119	225,887
Cost of sales	241,124	213,885	175,278	164,611	146,965
Selling, general and administrative expenses	87,722	81,426	74,561	66,335	56,944
Research and development expenses	18,662	20,110	18,773	15,816	11,754
Impairment loss on goodwill	19,891	-	-	-	-
Acquisition-related items	7,206	-	-	-	-
Operating (loss) income	(14,633)	19,624	19,267	14,357	10,224
Interest income	207	2,430	5,403	2,254	588
Interest expense	(2,181)	(1,679)	(1,953)	(1,921)	(3,304)
Foreign exchange loss, net	(808)	(586)	(1,390)	(710)	(288)
(Loss) earnings from continuing operations before income taxes	(17,415)	19,789	21,327	13,980	7,220
Income tax benefit (expense)	4,266	682	(2,080)	1,823	(2,094)
(Loss) earnings from continuing operations	(13,149)	20,471	19,247	15,803	5,126
Discontinued operations:					
(Loss) earnings from discontinued operations before income taxes	(10,917)	-	(585)	24,427	(13,971)
Income tax benefit (expense)	4,001	-	82	(7,222)	(2,598)
(Loss) earnings from discontinued operations	(6,916)	-	(503)	17,205	(16,569)
Net (loss) earnings	<u>\$ (20,065)</u>	<u>20,471</u>	<u>18,744</u>	<u>33,008</u>	<u>(11,443)</u>
Net (loss) earnings per share:					
Basic:					
From continuing operations	\$ (0.87)	1.32	1.25	1.08	0.46
From discontinued operations	(0.45)	-	(0.03)	1.18	(1.48)
Net (loss) earnings	<u>\$ (1.32)</u>	<u>1.32</u>	<u>1.22</u>	<u>2.26</u>	<u>(1.02)</u>
Diluted:					
From continuing operations	\$ (0.87)	1.31	1.24	1.08	0.46
From discontinued operations	(0.45)	-	(0.03)	1.17	(1.48)
Net (loss) earnings	<u>\$ (1.32)</u>	<u>1.31</u>	<u>1.21</u>	<u>2.25</u>	<u>(1.02)</u>
Weighted-average number of common shares outstanding:					
Basic	15,169	15,452	15,354	14,621	11,179
Diluted	15,169	15,628	15,482	14,679	11,225
	As of December 31				
	2009	2008	2007	2006	2005
Working capital related to continuing operations	\$ 98,147	165,419	198,491	176,570	67,580
Total assets	374,145	327,365	323,800	291,684	225,341
Long-term debt, including current installments	27,750	10,552	13,720	14,857	43,408
Shareholders’ equity	237,091	242,742	247,126	213,083	113,656

No cash dividends have been declared or paid during any of the periods presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We have included forward-looking statements in management's discussion and analysis of financial condition and results of operations. All statements, other than statements of historical fact, included in this report that address activities, events or developments that we expect or anticipate will or may occur in the future, or that necessarily depend upon future events, including such matters as our expectations with respect to future financial performance, future capital expenditures, business strategy, competitive strengths, goals, expansion, market and industry developments and the growth of our businesses and operations, are forward-looking statements.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K. Actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors, including those addressed at the end of this item and those discussed under the caption "Risk Factors" in Item 1A. of this Annual Report on Form 10-K. The historical results of operations are not necessarily indicative of future results.

Overview

We are a leading innovator in the design, manufacture, and marketing of wireless communications solutions addressing the enterprise mobility, communications-on-the-move and in-flight connectivity markets for both commercial and government end-users. We focus on the needs of the mobile information user and the increasing demand for wireless broadband communications. We provide products and services that enable communications across a variety of coverage areas, ranging from global, to regional, to within a single facility.

As of 2009, our continuing operations include the following three reportable operating segments:

- *Communications & Tracking* – Supplies a broad array of terminals and antennas that enable end-users in aircraft and other mobile platforms to communicate over satellite and air-to-ground links. This segment includes the previously reported Satellite Communications segment, and the newly acquired Formation, Inc. ("Formation") and Satamatics Global Limited ("Satamatics") product lines which include aeronautical wi-fi communications and data storage, aeronautical voice and tracking, and satellite-based machine-to-machine mobile communications (refer to "Acquisitions Completed in 2009" in Item 1 of this Annual Report and Note 2 to the Consolidated Financial Statements for additional information);
- *LXE* – Provides rugged mobile terminals and wireless data networks used for logistics applications such as distribution centers, warehouses and container ports. LXE operates mainly in two markets: the Americas market, which is comprised of North, South and Central America; and the International market, which is comprised of all other geographic areas, with the highest concentration in Europe; and
- *Defense & Space ("D&S")* – Supplies highly engineered subsystems for defense electronics and sophisticated satellite applications from military communications, radar, surveillance and countermeasures to commercial high-definition television, satellite radio, and live TV for innovative airlines.

In early 2010, we realigned our business segments for strategic growth and replaced Communications & Tracking with two new segments, Aviation and Global Tracking.

- *Aviation* - Includes SATCOM's aeronautical business, and the Sky Connect and Formation businesses, which were acquired in August 2008 and January 2009, respectively. Aviation designs and develops satellite-based communications solutions through a broad array of terminals and antennas for the aeronautical market that enable end-users in aircraft and other mobile platforms to communicate over satellite and air-to-ground links. This segment also builds in-cabin connection devices and computers to process data on board aircraft, including rugged data storage, airborne connectivity, air-to-ground connectivity, and data recording and replay.

- **Global Tracking** - Includes the asset tracking and emergency management operations of our SATCOM business, and the Satamatics business, which was acquired in February 2009. Global Tracking provides aeronautical voice and tracking, and satellite-based machine-to-machine mobile communications equipment and services to track, monitor and control remote assets, regardless of whether they are fixed, semi-fixed or mobile. Additionally, Global Tracking provides equipment for the Cospas-Sarsat search and rescue system and incident management software for rescue coordination worldwide.

This new segment structure will be presented beginning in 2010.

We sell LXE products and the majority of Communications & Tracking products for commercial applications. We sell D&S products primarily for defense and space applications. Sales of products for U.S. government end-use comprised 29.7%, 26.3% and 24.6% of our net sales in 2009, 2008 and 2007, respectively.

Our sales to customers in the U.S. accounted for 70.3%, 60.4% and 61.2% of our consolidated net sales in 2009, 2008 and 2007, respectively. The remainder of our sales were to customers in markets outside of the U.S. Net sales from our markets outside the U.S. have generally increased when the Euro and other local functional currencies have increased in value as compared with the U.S. dollar.

Financial and Performance Highlights of 2009

Following is a summary of significant factors affecting our business in 2009:

- We completed the acquisitions of Formation and Satamatics on January 9, 2009 and February 13, 2009, respectively. In 2009, these newly acquired product lines along with Sky Connect, LLC (“Sky Connect”), which was acquired in August of 2008, generated \$68.9 million of net sales, and losses of \$1.8 million before income taxes. The loss includes a charge of \$7.8 million for amortization of intangible assets.
- Consolidated net sales were 7.4% higher in 2009 as compared with same period in 2008. Higher net sales at Communications & Tracking (reflected the newly acquired product lines), and D&S were partially offset in 2009 by lower net sales at LXE (reflecting the challenging global economic climate). Net sales from Communications & Tracking’s organic product lines were down for 2009, as compared with 2008, due to lower net sales from aeronautical products and from the Inmarsat development project that concluded in 2008 and, therefore, was not included in the 2009 results.
- Our pre-tax loss from continuing operations of \$17.4 million included a \$19.9 million impairment loss on goodwill at LXE, \$7.2 million of acquisition-related charges that are required to be reported as a current expense under the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 141(R), *Business Combinations* (which is now included in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) Topic 805, *Business Combinations*), \$7.8 million of amortization of intangible assets related to our new acquisitions, and approximately \$3.9 million of severance costs.
- Our markets continue to see the unfavorable impact of the economy and they are not immune to increasing pressures and risks. We expect that we will continue to be faced with these economic pressures through 2010. We recorded an impairment loss on goodwill of \$19.9 million at our LXE segment in the fourth quarter of 2009. We concluded during our annual impairment evaluation that the carrying amount of LXE’s goodwill exceeded its implied fair value reflecting the unfavorable affects of the global economic climate on the projected future cash flows of our LXE business. The economy and other factors could cause a decline in expected future cash flows for one or more of our other business units (including our recently acquired businesses) and it is reasonably possible that we may be required to recognize additional impairment losses related to goodwill or other long-lived assets.
- Our discontinued operations reported a loss before income taxes of \$10.9 million in 2009. The loss was mainly a result of a \$9.2 million liability recorded in 2009 for costs awarded in an interim award by an arbitrator for warranty claims under the provisions of the sales agreement of our former EMS Wireless division, and for legal costs of \$1.5 million associated with the defense of these claims.

Description of Net Sales, Costs and Expenses

Net sales

The amount of net sales is generally the most significant factor affecting our operating income in a period. We recognize product-related net sales under most of our customer agreements when we ship completed units or complete the installation of our products. If multiple deliverables are involved in a revenue arrangement, or if software included in an offering is more than incidental to a product as a whole, we recognize revenue in accordance with ASC Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements*, or ASC Subtopic 985-605, *Software-Revenue Recognition*, as applicable. If the customer agreement is in the form of a long-term contract (mainly at D&S and to a lesser degree at Communications & Tracking), we recognize revenue under the percentage-of-completion method, using the ratio of cost-incurred-to-date to total-estimated-cost-at-completion as the measure of performance. Estimated cost-at-completion for each of these contracts is reviewed on a routine periodic basis, and adjustments are made periodically to the estimated cost-at-completion based on actual costs incurred, progress made, and estimates of the costs required to complete the contractual requirements. When the estimated cost-at-completion exceeds the contract value, the entire estimated loss resulting from the projected cost overruns is immediately recognized. If the customer agreement is in the form of a cost-reimbursement contract, we recognize revenue based on the type of fee specified in the contract, which is typically a fixed fee, award fee or a combination of both.

We also generate net sales from product-related service contracts, repair services, airtime and mapping services, and engineering services projects. We recognize revenue from product-related service contracts, extended warranties ratably over the life of the contract. We recognize revenue from repair services and tracking, voice, and data services as services are rendered. We recognize revenue from contracts for engineering services using the percentage-of-completion method for fixed price contracts, or as costs are incurred for cost-type contracts.

Cost of sales

Product cost of sales includes the cost of materials, payroll and benefits for direct and indirect manufacturing labor, engineering and design costs, outside costs such as subcontracts, consulting or travel related to specific contracts, and manufacturing overhead expenses such as depreciation, utilities and facilities maintenance. We also include amortization of intangible assets for development technologies in cost of sales.

We sell a wide range of advanced wireless communications products into markets with varying competitive conditions, and cost of sales as a percentage of net sales varies by product. Consequently, the mix of products sold in a given period is a significant factor affecting our operating income.

The cost-of-sales percentage is principally a function of competitive conditions and product and customer mix, but Communications & Tracking is also affected by changes in foreign currency exchange rates, mainly because the Canadian-based SATCOM business derives most of its net sales from contracts denominated in U.S. dollars, but incurs most of its costs in Canadian dollars. When the U.S. dollar weakens against the Canadian dollar, our reported manufacturing costs for SATCOM increase relative to our net sales, which increases the cost-of-sales percentage. When the U.S. dollar strengthens, the opposite effect results. Our LXE business derives a significant portion of its net sales from international markets, mainly in Euros, but incurs most of its costs in U.S. dollars. When the U.S. dollar weakens against the Euro and other international currencies, our reported net sales generally increase relative to our costs, which decreases the cost-of-sales percentage. When the U.S. dollar strengthens, the opposite effect generally results.

Service cost of sales is based on labor and other costs recognized as incurred to fulfill obligations under most of our service contracts, and the cost of airtime for providing tracking, voice and data services. Cost of sales for long-term engineering services contracts are based on labor and other costs incurred.

Selling, general and administrative expenses

Selling, general and administrative (“SG&A”) expenses include salaries, commissions, bonuses and related overhead costs for our personnel engaged in sales, administration, finance, information systems and legal functions. Also included in SG&A expenses is amortization of intangible assets for trademarks, trade names and customer lists as well as costs of engaging outside professionals for consultation on legal, accounting, tax and management information system matters, auditing and tax compliance, and general corporate expenditures to other outside suppliers and service providers.

Research and development expenses

Research and development (“R&D”) expenses represent the cost of our development efforts, net of reimbursement under specific customer-funded R&D agreements. R&D expenses include salaries of engineers and technicians and related overhead expenses, the cost of materials utilized in research, and additional engineering or consulting services provided by independent companies. R&D costs are expensed as they are incurred. We also often incur significant development costs to meet the specific requirements of customer contracts in D&S and Communications & Tracking, and we report these costs in the consolidated statements of operations as cost of sales.

Acquisition-related items

Acquisition-related items include the costs of engaging outside professionals for legal, due diligence, business valuation, and integration services related to business combinations. The category also includes adjustments related to changes in the fair value of the earn-out liability associated with one acquisition completed in 2009.

Impairment loss on goodwill

An impairment loss on goodwill is recognized to the extent that a reporting unit’s carrying amount of goodwill exceeds the implied fair value of its goodwill, determined in accordance with ASC Topic 350, *Intangibles-Goodwill and Other*. Goodwill is evaluated for impairment annually, and between annual tests if an event or changes in circumstances indicate that the goodwill might be impaired. We complete our annual evaluation of goodwill for impairment in the fourth quarter of each fiscal year.

Interest income

Interest income is earned primarily from our investments in government-obligations money market funds, other money market instruments, and interest-bearing deposits.

Interest expense

We incur interest expense principally related to mortgages on certain facilities and our revolving credit facility. We incurred no interest expense in 2008 and 2007 related to borrowings under revolving credit facility because during those periods we had no borrowings outstanding under this facility.

Foreign exchange gains and losses

We recognize foreign exchange gains and losses at any of our subsidiaries that have assets and liabilities that are denominated in a currency different than its local functional currency. For our Canada-based SATCOM business, most trade receivables are denominated in U.S. dollars; when the U.S. dollar weakens against the Canadian dollar, the value of SATCOM’s trade receivables decreases and foreign exchange losses result. For our LXE segment’s international subsidiaries, most trade payables are in U.S. dollars and relate to their purchases of equipment from LXE’s U.S. operations for sale in Europe; when the U.S. dollar weakens against the Euro or other international currencies, the value of the LXE subsidiaries’ trade payables decreases and foreign exchange gains result. When the U.S. dollar strengthens, the opposite effects on trade payables and foreign exchange gains and losses result.

We regularly assess our exposures to changes in foreign currency exchange rates and as a result, we enter into forward currency contracts to reduce those exposures. The notional amount of each forward currency contract is based on the amount of exposure for net assets or liabilities subject to changes in foreign currency exchange rates. We record changes in the fair value of these contracts in foreign exchange gains and losses in our consolidated statements of operations.

Income taxes

Typically, the main factor affecting our effective income tax rate each year is the relative proportion of taxable income that we expect to earn in Canada, where the effective rate is lower than in the U.S. and other locations. The lower effective rate in Canada results from certain Canadian tax benefits for research-related expenditures.

Discontinued operations

Prior to 2007, we disposed of our Space & Technology/Montreal (“S&T/Montreal”), Satellite Networks (“SatNet”) and EMS Wireless divisions. The losses reported in discontinued operations relate directly to the resolution of various contingencies, representations or warranties as specified under the standard indemnification provisions of the sales agreements. We record a liability related to a contingency, representation or warranty when management considers that the liability is both probable and can be reasonably estimated.

Results of Operations

The following table sets forth the percentage relationship of each line item to net sales for each period.

	Years Ended December 31		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Product net sales	78.1 %	81.6 %	86.0 %
Service net sales	21.9	18.4	14.0
Net sales	100.0	100.0	100.0
Product cost of sales as a percentage of product net sales	69.0	64.4	61.3
Service cost of sales as a percentage of service net sales	59.9	61.2	58.6
Cost of sales	67.0	63.8	60.9
Selling, general and administrative expenses	24.4	24.3	25.9
Research and development expenses	5.2	6.0	6.5
Impairment loss on goodwill	5.5	-	-
Acquisition-related charges	2.0	-	-
Operating (loss) income	(4.1)	5.9	6.7
Interest income	0.1	0.7	1.9
Interest expense	(0.6)	(0.5)	(0.7)
Foreign exchange loss, net	(0.2)	(0.2)	(0.5)
(Loss) earnings from continuing operations before income taxes	(4.8)	5.9	7.4
Income tax benefit (expense)	1.1	0.2	(0.7)
Net (loss) earnings from continuing operations	(3.7)	6.1	6.7
Discontinued operations:			
Loss from discontinued operations before income taxes	(3.0)	-	(0.2)
Income tax benefit	1.1	-	-
Loss from discontinued operations	(1.9)	-	(0.2)
Net (loss) earnings	<u>(5.6) %</u>	<u>6.1 %</u>	<u>6.5 %</u>

Years ended December 31, 2009 and 2008:

Net sales increased by 7.4% to \$360.0 million from \$335.0 million in 2009 as compared with 2008, reflecting growth in net sales from two of our three reportable operating segments, Communications & Tracking, and D&S, with increases of 41.3%, and 19.5%, respectively. The increase in net sales in the Communications & Tracking segment was the result of our recently acquired product lines. Such increases were partially offset by declines in net sales from Communications & Tracking organic product lines in 2009, as compared with 2008, and from the Inmarsat development project that was concluded in 2008 and therefore, not included in the 2009 results. D&S's net sales were higher in 2009 mainly due to significant work performed on a military communications research project and increased activity on both military and commercial programs. LXE's net sales in 2009 were \$36.4 million lower than the same period in 2008, a decrease of 25.0%, with a decrease in net sales in both the Americas and International markets.

Product net sales increased by 2.9% to \$281.2 million in 2009 as compared with 2008. This was primarily due to the product net sales generated from our recently acquired product lines and increased activity on both defense and commercial programs, including significant work to supply phase-shifter products for a military program, and antennas for systems that provide connectivity to the internet, live television programs and cellular services on-board commercial aircraft. These increases were partially offset by a lower number of terminals shipped by LXE in both the International and Americas markets and lower net sales of high-speed-data aeronautical products from the organic product lines of Communications & Tracking. Service net sales increased by 27.6% to \$78.8 million in 2009 as compared with the same period in 2008, mainly due to significant work performed on a military communications research project by D&S, and the service revenue generated from our newly acquired product lines at Communications & Tracking. As a result, service net sales comprised a higher percentage of total net sales in 2009 as compared with 2008.

Overall cost of sales as a percentage of consolidated net sales was higher in 2009 as compared with 2008 due to higher cost-of-sales percentages reported by each of our three reportable operating segments. Product cost of sales as a percentage of net sales, was higher in 2009 as compared with 2008. The increase in product cost of sales as a percentage of net sales was mainly due to the acquisition of the new product lines in 2009 at Communications & Tracking which had a higher cost-of-sales percentages than our existing SATCOM business, primarily due to the amortization of intangible assets, and a higher percentage of net sales generated by our D&S segment, which has a higher cost-of-sales percentage than our other two reportable operating segments. Product cost of sales was also higher due to a lower production volume by our LXE segment over which fixed costs were absorbed, and an unfavorable effect of changes in foreign currency exchange rates, and additional severance costs of \$1.8 million recorded in 2009 for a reduction in workforce across all divisions to realign the staffing needs of the business with current economic conditions. Service cost of sales as a percentage of net sales was lower in 2009 as compared with 2008. The decrease in the service cost-of-sales percentage was mainly due to an increase in service revenue from our newly acquired product lines at Communications & Tracking which had a lower cost-of-sales percentage than our other two operating segments. Service cost of sales as a percentage of net sales was also lower in 2009 as compared with 2008 due to lower volume of repairs experienced under existing maintenance contracts at our D&S and LXE segments in 2009.

SG&A expenses as a percentage of consolidated net sales increased slightly in 2009 as compared with 2008. Actual expenses grew by \$6.3 million in 2009 as compared with 2008 mainly due to the additional costs related to the acquired product lines, including additional amortization of intangible assets. These additional costs were partially offset by the impact of management's continued cost reduction efforts and the favorable effect of changes in foreign currency exchange rates on our LXE and SATCOM international operations.

R&D expenses were \$1.4 million lower in 2009 than in 2008 mainly due to additional funding received from the Canadian government under a program to encourage technology development in areas such as satellite communications, reduced spending due to cost control measures, and the completion of certain internal development programs at SATCOM and LXE in 2009. R&D expenses were also lower due to the favorable effect of changes in foreign currency exchange rates in 2009. These decreases in expenses were partially offset by additional R&D expenses related to our recently acquired product lines.

An impairment loss on goodwill of \$19.9 million was recorded by our LXE segment in 2009. We completed our annual evaluation for goodwill impairment in the fourth quarter of 2009 and concluded that the goodwill of our LXE segment might be impaired, since the estimated fair value of the reporting unit was less than the carrying amount. The amount of the impairment loss was determined by comparing the carrying amount of the goodwill for the reporting unit to the implied fair value of the goodwill determined in accordance with current accounting standards. While the carrying amount exceeded the estimated fair value by only \$6.0 million, the impairment loss was measured as \$19.9 million. The requirements to determine the impairment loss stipulate that the estimated fair value of all assets and liabilities of the reporting unit be determined similar to the method used in a business combination. The aggregate fair value of the assets and liabilities, including those not reflected in the carrying amount, is compared to the estimated reporting unit fair value with the difference being implied goodwill. The excess of goodwill on the balance sheet and this implied goodwill is the impairment loss. For a reporting unit with unrecognized intangible assets or other assets whose fair value exceeds the carrying amount, the impairment loss will exceed the reporting unit fair value deficiency since the accounting rules do not allow for a step up in fair value for these other assets in this process.

Goodwill in our consolidated balance sheet as of December 31, 2009 includes the remaining goodwill of LXE of \$1.8 million and the goodwill related to the acquisitions of Formation, Satamatics and Sky Connect, for which no impairment was indicated in 2009.

Acquisition-related charges were \$7.2 million in 2009. These charges were primarily for professional fees for legal, due-diligence, valuation, and integration services for the acquisition of our Formation and Satamatics businesses, as well as increases in the estimated fair value of the earn-out liability associated with one of the acquisitions. The fair value increased by \$3.2 million during 2009 primarily related to accretion in the liability from the acquisition date, changes in the expected earn-out payments based on the results of 2009, and an agreement between the Company and the sellers of the acquired entity to set the 2010 earn-out at a fixed amount, which settled the contingency.

Interest income was \$2.2 million lower in 2009 than in 2008 mainly as a result of lower average investment balances and, to a lesser extent, lower average interest rates earned on our investment balances.

Interest expense was \$0.5 million higher in 2009 than in 2008 mainly due to borrowings under our revolving credit facility incurred in the first quarter of 2009 to partially fund the acquisition of our new product lines.

Our foreign exchange net loss was \$0.2 million higher in 2009 than in 2008. Included in 2009, was a \$1.4 million foreign exchange loss related to the funding of the Satamatics acquisition, which was required to be paid in British pounds sterling. The loss resulted from changes in foreign currency exchange rates from the date we funded the transaction to the date the acquisition was completed. Partially offsetting this loss in the period were net gains from the conversion of assets and liabilities not denominated in the functional currency and changes in the fair value of forward contracts used to hedge against currency exposure.

We recognized an income tax benefit of \$4.3 million for continuing operations in 2009. Earnings were generated in Canada, where we have a much lower effective rate than in the U.S. or other locations due to research-related tax benefits. Other jurisdictions incurred losses, which generated a tax benefit. In addition we recognized a change in estimate of \$1.9 million for prior-year research and development credits in the U.S. after completion of an Internal Revenue Service examination. No tax benefit was recognized for the loss on impairment of goodwill. Income tax for 2008 was a net benefit of \$0.7 million. A \$0.9 million tax benefit was recognized in 2008 related to revised estimates for research and development costs qualifying for U.S. Federal tax credits from prior years. We also recognized a \$1.3 million benefit in 2008 from the reduction of the valuation allowance against deferred tax assets based upon the expected continuing profitability of SATCOM. Our effective tax rate for 2010 is expected to be approximately 15%.

Years ended December 31, 2008 and 2007:

Net sales increased by 16.4% to \$335.0 million from \$287.9 million, for 2008 as compared with 2007, with net sales growth contributed by each of our three reportable operating segments. Communications & Tracking and D&S recorded the largest growth in net sales, with increases of 25.1% and 29.7%, respectively. These

increases were mainly due to the strong demand for high-speed-data aeronautical products from both commercial and military markets and the revenues generated from the development of the Inmarsat global satellite/GSM phone by our Communications & Tracking segment, and the increased activity on both commercial and military programs by our D&S segment. Net sales for LXE were higher by 5.1% primarily due to growth in net sales from the international market along with a favorable effect of changes in exchange rates that increased the reported net sales from international markets.

Product net sales increased by 10.4% to \$273.3 million in 2008 as compared with 2007 mainly due to the strong demand for high-speed-data aeronautical products from both commercial and military markets, and higher net sales of terminals and wireless data collection equipment for logistics management systems. Service net sales increased by \$21.4 million to \$61.8 million in 2008 as compared with 2007 mainly due to significant work performed on a military communications research project by D&S. Service net sales made up a slightly higher percentage of total net sales in 2008 compared with 2007.

Overall cost of sales as a percentage of consolidated net sales increased in 2008 as compared with 2007, due to higher cost-of-sales percentages recorded by each of our three reportable segments. Product cost of sales as a percentage of its respective net sales increased in 2008 as compared with 2007, mainly due to a higher percentage of net sales generated from indirect channels at LXE, and the revenues generated in 2008 by Communications & Tracking related to an agreement to develop the Inmarsat global satellite/GSM phone, that did not generate gross margin. An agreement was reached with Inmarsat in January 2009 and the project has been concluded with the full effect recognized in the fourth quarter of 2008. Service cost of sales as a percentage of its respective net sales increased in 2008 as compared with 2007, mainly due to a higher percentage of net sales generated by D&S, which has a higher cost-of-sales percentage than our LXE and Communications & Tracking segments.

SG&A expenses as a percentage of consolidated net sales were lower in 2008 as compared with 2007. The \$6.9 million growth in actual expenses mainly related to the effect of changes in foreign currency exchange rates that increased the reported costs of the international activities at LXE, and sales-related efforts, such as selling and marketing, to support the growth in net sales. SG&A expenses also included additional costs from our Trux and Sky Connect operations which were acquired in February and August 2008, respectively, as well as approximately \$1.1 million of severance costs primarily related to staff reductions in LXE's international operations that occurred during 2008. These additional costs were partially offset by the impact of management's cost-reduction efforts at LXE which began in the second quarter of 2008.

R&D expenses increased by \$1.3 million mainly due to additional internal development programs for next-generation products at SATCOM, and the effect of changes in foreign currency exchange rates on its reported costs.

Interest income decreased by \$3.0 million mainly as a result of lower average interest rates earned on our investment balances and to a lesser extent the decrease in the average investment balances.

Our foreign currency forward contract program was somewhat more effective in reducing the currency risk in 2008, resulting in smaller foreign currency exchange losses in 2008 as compared with 2007.

Income tax for 2008 was a net benefit of \$0.7 million. A \$0.9 million tax benefit was recognized in 2008 related to revised estimates for research and development costs qualifying for U.S. Federal tax credits from prior years. We also recognized a \$1.3 million benefit in 2008 from the reduction of the valuation allowance against deferred tax assets based upon the expected continuing profitability of SATCOM. Excluding these special items, our effective income tax rate for 2008 was 7.7%. The rate was 9.8% for the year ended December 31, 2007. The decrease in the estimated annual rate is due to a higher proportion of earnings in Canada, where we have a much lower effective rate than in the U.S. or other locations due to research-related tax benefits.

Segment Analysis

Our net sales, cost-of-sales (as a percentage of respective segment net sales), operating income (loss), and Adjusted EBITDA for the years ended December 31, 2009, 2008 and 2007 were as follows for each of our reportable operating segments (in thousands, except percentages):

	Years Ended December 31		
	2009	2008	2007
Net sales:			
Communications & Tracking	\$ 158,952	112,517	89,968
LXE	109,441	145,885	138,821
Defense & Space	91,579	76,643	59,090
Total	<u>\$ 359,972</u>	<u>335,045</u>	<u>287,879</u>
Cost of sales percentage:			
Communications & Tracking	61.7%	58.6%	55.9%
LXE	63.6	60.3	58.0
Defense & Space	80.1	77.0	75.4
Total	<u>67.0</u>	<u>63.8</u>	<u>60.9</u>
Operating income (loss):			
Communications & Tracking	\$ 11,383	14,187	12,189
LXE	(26,531)	2,861	7,067
Defense & Space	7,314	6,381	4,876
Corporate & Other	(6,799)	(3,805)	(4,865)
Total	<u>\$ (14,633)</u>	<u>19,624</u>	<u>19,267</u>
Adjusted EBITDA ⁽¹⁾			
Communications and Tracking	\$ 24,326	19,122	15,244
LXE	(3,379)	6,724	9,508
Defense & Space	10,682	9,410	7,503
Corporate & Other	1,623	(1,290)	691
Total	<u>\$ 33,252</u>	<u>33,966</u>	<u>32,946</u>

⁽¹⁾ Adjusted EBITDA is considered a non-GAAP financial measure. See section entitled "Adjusted EBITDA" for an explanation of this measure and a reconciliation to net earnings (loss).

Communications & Tracking: Net sales were \$46.4 million higher in 2009 as compared with 2008. The increase was due to the sales generated from our recently acquired product lines, which contributed \$64.7 million of additional net sales in 2009. This increase in net sales was partially offset by lower net sales of high-speed-data aeronautical products into the military and air transport markets in 2009, as compared with 2008. Net sales from the business jet market were also lower in 2009 as compared with 2008. Sales of new corporate aircraft have declined in 2009 due to general economic conditions and a high level of inventory of used aircraft. Positive customer acceptance of new equipment offerings in 2009 helped to fuel sales of SwiftBroadband products. Revenues for 2008 included the development of the Inmarsat global satellite/GSM phone, which was concluded in 2008 and, therefore, had no effect on the results of 2009. Net sales of \$112.5 million were reported for 2008, an increase of 25.1% as compared with 2007, mainly as a result of the strong demand for high-speed-data aeronautical products from both commercial and military markets, and revenues generated from the development of the Inmarsat global satellite/GSM phone.

Cost of sales as a percentage of net sales was higher in 2009 as compared with 2008. The cost-of-sales percentage for 2009 was impacted by a change in product mix and amortization costs of intangible assets from our new product lines acquired in 2009. Cost of sales as a percentage of net sales was higher for 2008 as compared with 2007. The increase in cost of sales percentage was mainly related to cost increases on the Inmarsat global satellite/GSM phone project which was partially offset by a more favorable product mix.

Operating income was \$2.8 million lower in 2009 as compared with 2008. This was primarily as a result of higher SG&A expenses, additional intangible asset amortization costs from our new product lines, and severance charges of approximately \$0.7 million in 2009, which offset the higher margin contribution from an increase in net sales generated, and the favorable effects of foreign currency exchange rates in 2009. Operating income was \$2.0 million higher in 2008 as compared with 2007 primarily due to a higher margin contribution from an increase in net sales generated in 2008. Operating income as a percentage of net sales was 7.2%, 12.6% and 13.5% in 2009, 2008 and 2007, respectively.

Adjusted EBITDA of \$24.3 million in 2009 was \$5.2 million more than 2008, primarily due to the operating income before depreciation and amortization contributed by our new product lines acquired in 2009, and a \$1.5 million favorable change in foreign currency gains and losses. Adjusted EBITDA increased by \$3.9 million in 2008 as compared with 2007, mainly due to higher operating income contribution by SATCOM's organic product lines and lower foreign currency exchange losses in 2008.

LXE: Net sales in 2009 were \$36.4 million lower as compared with 2008, reflecting the impact of the slowdown in the global economy. Net sales decreased in both the International and Americas markets in 2009, as compared with 2008, resulting primarily from a lower number of terminals shipped in both markets. It was also lower due to the foreign currency translation effect on the reported net sales for LXE's International market. Net sales in 2008 increased as compared with the preceding year resulting from an increased number of terminals shipped in the International market, along with a favorable effect of changes in foreign currency exchange rates that increased the reported net sales from International market. Increased International sales more than offset the decline in net sales in the Americas in 2008. We believe that the softer Americas and International markets reflect slower capital spending in a sluggish economy. The economy may continue to be sluggish in both the Americas and International markets in 2010, which could continue to delay customer capital-spending decisions.

Cost of sales as a percentage of net sales was higher in 2009 as compared with 2008, mainly due to lower production volume over which fixed costs were absorbed, a higher percentage of net sales generated from indirect channels which have a higher cost-of-sales percentage than net sales generated from direct sales channels, and an unfavorable effect of changes in foreign currency exchange rates that affected our reported International net sales. Revenues are reported in the local functional currency but product costs are reported in the U.S. dollar, which was stronger in 2009 compared with 2008. Cost of sales as a percentage of net sales was higher in 2008 as compared with 2007 mainly as a result of a higher percentage of net sales generated from indirect channels, which has a higher cost-of-sales percentage than net sales generated from direct sales channels, partially offset by the favorable effects of changes in international currencies that increased our reported international net sales.

LXE reported an operating loss of \$26.5 million in 2009. This was a decrease in operating income of \$29.4 million as compared with 2008 mainly due to an impairment loss on goodwill recorded in 2009 of \$19.9 million, lower net sales recorded in 2009 and a less favorable cost-of-sales percentage. These impacts were partially offset by lower SG&A and R&D expenses. SG&A and R&D expenses were lower in 2009 by \$8.6 million as compared with the same periods in 2008 reflecting the impact of management's efforts to control spending. Lower SG&A expenses were primarily a result of staff reductions to realign LXE's cost structure with the expected needs of the business, and the favorable effect of changes in foreign currency exchange rates on reported costs, partially offset by higher severance expenses. Lower R&D expenses were mainly a result of controlled spending through headcount reductions, redeploying development efforts offshore and the completion of certain internal development programs in 2009. Operating income decreased by \$4.2 million in 2008 as compared with 2007 primarily due to a lower margin contribution resulting from a less favorable cost-of-sales percentage, and an increase in SG&A expenses. SG&A expenses increased in 2008, as

compared with 2007, mainly as a result of the unfavorable effects of changes in foreign currency exchange rates, as well as approximately \$1.1 million of severance costs primarily related to staff reductions in LXE's international operations in 2008. The increase in SG&A costs was partially offset by the impact of management's cost reduction efforts begun in the second quarter of 2008. Operating income as a percentage of net sales was negative 24.2%, and positive 2.0% and 5.1% in 2009, 2008 and 2007, respectively.

Adjusted EBITDA decreased in 2009 and in 2008 by \$10.1 million and \$2.8 million, respectively, as compared with the previous year, mainly due to lower operating income in both 2009 and in 2008.

Defense & Space: Net sales increased by \$14.9 million in 2009, or 19.5%, compared to 2008. Net sales for 2008 were \$17.6 million higher, or 29.7%, compared to 2007. The increases were mainly due to increased work performed on military programs in 2009 and 2008, and increased activity on commercial projects, including significant work to supply phase-shifter products for a military program, and antennas for systems that provide connectivity to the internet, live television programs and cellular services on-board commercial aircraft. The work performed on a large military satellite communications research project was an individually significant contributor to the net sales increase in both 2009 and 2008, but the work was completed early in the fourth quarter of 2009, and is not expected to contribute to future net sales. As a result, D&S began an operational transition and workforce reduction in the fourth quarter of 2009 to reduce capacity; however, the extent and cost of that transition will depend upon the success of business development efforts and the timing of orders. Order backlog of long-term contracts was \$89.6 million at December 31, 2009, a decrease of \$25.3 million from December 31, 2008. Customer orders in 2008 were a record \$125.7 million. This increased sales order volume contributed to the increase in net sales as it allowed D&S to expand its workforce to meet the order demand. The strong order volume also left D&S with a record backlog for long-term contracts of \$114.9 million at December 31, 2008, a 75% increase from December 31, 2007.

Cost of sales as a percentage of net sales was higher in 2009 and 2008 as compared with the previous years, mainly due to an unfavorable mix of contracts and an increase in costs from a higher volume of subcontracted projects utilized to meet scheduling demands for certain military programs. Cost of sales as a percentage of net sales was also higher in 2009 as compared with 2008 due to unfavorable contract performance experienced on certain programs in 2009.

Operating income improved by \$0.9 million in 2009 as compared with 2008. Operating income improved mainly due to the increase in net sales generated in 2009, and lower SG&A expenses, partially offset by severance charges of approximately \$1.6 million in 2009. Operating income improved by \$1.5 million in 2008, as compared with 2007, primarily due to a higher margin contribution from an increase in net sales generated in 2008. Operating income as a percentage of net sales was 8.0% in 2009, and was 8.3% in both 2008 and 2007.

Adjusted EBITDA increased in 2009 and in 2008 by \$1.3 million, and \$1.9 million, respectively, as compared with the previous year, due to an increase in operating income in both 2009 and in 2008.

Adjusted EBITDA

We also measure our performance based on the non-GAAP financial measure of earnings before interest expense, income taxes, depreciation and amortization, and before discontinued operations, impairment loss on goodwill, acquisition-related items and acquisition-related foreign exchange adjustment ("Adjusted EBITDA").

The following table is a reconciliation of net (loss) earnings (which is the most directly comparable GAAP operating performance measure) to Adjusted EBITDA and earnings (loss) from continuing operations before income taxes by segment, for 2009, 2008, and 2007 (in thousands):

	<u>C&T</u>	<u>LXE</u>	<u>D&S</u>	<u>Corp & Other</u>	<u>Total</u>
<u>Year Ended December 31, 2009</u>					
Net loss					\$ (20,065)
Loss from discontinued operations					6,916
Income tax benefit from continuing operations					<u>(4,266)</u>
Earnings (loss) from continuing operations before income taxes	\$ 12,141	(26,708)	7,315	(10,163)	(17,415)
Interest expense	68	93	-	2,020	2,181
Depreciation and amortization	12,117	3,345	3,367	1,160	19,989
Impairment loss on goodwill	-	19,891	-	-	19,891
Acquisition-related items	-	-	-	7,206	7,206
Acquisition-related foreign exchange adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,400</u>	<u>1,400</u>
Adjusted EBITDA	<u>\$ 24,326</u>	<u>(3,379)</u>	<u>10,682</u>	<u>1,623</u>	<u>\$ 33,252</u>
<u>Year Ended December 31, 2008</u>					
Net earnings					\$ 20,471
Income tax benefit from continuing operations					<u>(682)</u>
Earnings (loss) from continuing operations before income taxes	\$ 13,971	2,955	6,347	(3,484)	19,789
Interest expense	62	406	40	1,171	1,679
Depreciation and amortization	<u>5,089</u>	<u>3,363</u>	<u>3,023</u>	<u>1,023</u>	<u>12,498</u>
Adjusted EBITDA	<u>\$ 19,122</u>	<u>6,724</u>	<u>9,410</u>	<u>(1,290)</u>	<u>\$ 33,966</u>
<u>Year Ended December 31, 2007</u>					
Net earnings					\$ 18,744
Loss from discontinued operations					503
Income tax expense from continuing operations					<u>2,080</u>
Earnings (loss) from continuing operations before income taxes	\$ 11,504	6,955	4,742	(1,874)	21,327
Interest expense	121	348	141	1,343	1,953
Depreciation and amortization	<u>3,619</u>	<u>2,205</u>	<u>2,620</u>	<u>1,222</u>	<u>9,666</u>
Adjusted EBITDA	<u>\$ 15,244</u>	<u>9,508</u>	<u>7,503</u>	<u>691</u>	<u>\$ 32,946</u>

We believe that earnings that are based on this non-GAAP financial measure provide useful information to investors, lenders and financial analysts because (i) this measure is more comparable with the results for prior fiscal periods, and (ii) by excluding the potential volatility related to the timing and extent of non operating activities, such as acquisitions or revisions of the estimated value of post-closing earn-outs, such results provide a useful means of evaluating the success of our ongoing operating activities. Also, we use this information, together with other appropriate metrics, to set goals for and measure the performance of our operating businesses, and to assess our compliance with debt covenants. Management further considers

Adjusted EBITDA an important indicator of operational strengths and performance of our businesses. EBITDA measures are used historically by investors, lenders and financial analysts to estimate the value of a company, to make informed investment decisions and evaluate performance. Management believes that Adjusted EBITDA facilitates comparisons of our results of operations with those of companies having different capital structures. In addition, a measure similar to Adjusted EBITDA is a component of our bank lending agreement, which requires certain levels of Adjusted EBITDA to be achieved. This information should not be considered in isolation or in lieu of our operating and other financial information determined in accordance with generally accepted accounting principles ("GAAP"). In addition, because EBITDA and adjustments to EBITDA are not determined consistently by all entities, Adjusted EBITDA as presented may not be comparable to similarly titled measures of other companies.

Discontinued Operations:

Our discontinued operations reported a loss before income taxes of \$10.9 million in 2009. The loss was mainly a result of a \$9.2 million liability recorded in 2009 for costs awarded for warranty claims under the provisions of the sales agreement of our former EMS Wireless division, and for legal costs associated with the defense of these claims.

Prior to 2007, we disposed of our S&T/Montreal, SatNet, and EMS Wireless divisions. The sales agreements for each of these disposals contained standard indemnification provisions for various contingencies that could not be resolved before the dates of closing and for various representations and warranties provided by us and the purchasers. The purchaser of EMS Wireless asserted claims under such representations and warranties. The parties agreed to arbitration, which commenced in the third quarter of 2009. In March of 2010, we received an interim decision from the arbitrator on these claims awarding the purchaser a total of approximately \$9.2 million under the warranty provisions of the purchase agreement. As a result, we accrued a liability for the awarded costs in discontinued operations in 2009. We accrue for a liability related to a contingency, representation or warranty when management considers that the liability is both probable and can be reasonably estimated. Prior to the decision by the arbitrator, we did not believe that sufficient information existed to evaluate such claims, and could not reasonably estimate the range of this liability, or determine whether such liability would be material. The interim award will not become final until the arbitrator determines awards of costs and attorneys' fees, which the parties will be briefing in the near future. It is not possible at this time to determine the amount of any additional award, but any such award would be reflected in discontinued operations when it becomes probable and estimable. We are assessing our options in response to the interim award. Legal costs of \$1.5 million associated with the defense of this claim were also reflected in discontinued operations in 2009.

In 2008, discontinued operations had no effect on our net earnings. Our discontinued operations reported a loss before income taxes of \$0.6 million in 2007, mainly due to additional costs incurred to settle various contingent items, as well as expenses for legal, audit, and other outside services for the sale of SatNet and EMS Wireless.

We have an agreement with the purchaser of the former S&T/Montreal division to acquire a license for \$8 million in payments over a seven-year period, beginning in December 2008, for the rights to a certain satellite territory. We have a corresponding sublicense agreement with the purchaser that granted the territory rights back to the purchaser, under which we are to receive a portion of the satellite service revenues from the specific market territory over the same period. The purchaser had previously guaranteed that the revenues derived under the sublicense would equal or exceed the acquisition cost of the license. As part of the agreement to sell the net assets of S&T/Montreal, we released the purchaser for this guarantee. Without the guarantee, we estimate that our portion of the satellite service revenues will be less than the acquisition cost, and we have accordingly reflected a liability for the net cost in our consolidated balance sheet.

As of December 31, 2009, we have not made any payments under this license agreement. The satellite service revenues from the specific market territory included under the sublicense agreement are considerably lower than expected. We believe that sufficient efforts are not being made by the purchaser of the former S&T/Montreal division to market this satellite service. The parties are in discussions of a possible settlement under

these agreements. We believe that the net liability recorded in our consolidated balance sheet is our best estimate of the settlement amount. If a settlement is reached, it would be expected to be paid in the following twelve months, and therefore the net liability is recorded as a current liability in our consolidated balance sheet as of December 31, 2009.

In 2006, we completed the sale of our former SatNet division. The asset purchase agreement (“APA”) provided for the payment of \$2.3 million of the aggregate consideration in an interest-bearing note to be repaid over a three-year period beginning in May 2007. As of December 31, 2009, approximately \$1.1 million of this note receivable, excluding accrued interest, remained unpaid. The purchaser has indicated that it believes it has claims that offset the unpaid balance. We do not believe that these claims are valid according the terms of the APA and have filed an arbitration demand with the purchaser. We believe that the purchaser has the ability to pay the remaining balance of this note receivable, and that the receivable recorded in its consolidated balance sheet is fully collectible.

Backlog

Backlog is very important for our D&S segment due to the long delivery cycles for its projects. Many customers of our LXE segment typically require short delivery cycles. As a result, LXE usually converts orders into revenues within a few weeks, and it generally does not build up a significant order backlog that extends substantially beyond one fiscal quarter except for annual or multi-year maintenance service agreements. Our Communications & Tracking business has projects with both short delivery cycles, and delivery cycles that extend beyond the next twelve months. Our segment backlog as of December 31, 2009 and December 31, 2008 was as follows (in millions):

	December 31	
	2009	2008
Communications & Tracking	\$ 66.6	58.4
LXE	22.0	12.6
Defense & Space	89.6	114.9
Total	<u>\$ 178.2</u>	<u>185.9</u>

Included in the backlog of firm orders for our D&S segment was approximately \$22.5 million and \$48.4 million of unfunded orders, mainly for military contracts, as of December 31, 2009, and December 31, 2008, respectively. Of the orders in backlog as of December 31, 2009, the following are expected to be filled in 2010: Communications & Tracking – 70%; LXE – 80%; and D&S – 50%. LXE’s backlog as of December 31, 2009 was nearly double that of December 31, 2008 mainly due to a shortage of certain component parts from LXE’s suppliers which caused a delay in the fulfillment of LXE’s orders received in 2009. LXE is working closely with suppliers to identify and implement ways to resolve the sourcing issues. LXE is expecting to increase critical parts inventories in 2010 to avoid further delays.

Liquidity and Capital Resources

During 2009, cash and cash equivalents decreased by \$39.8 million to \$47.2 million as of December 31, 2009. The primary factor contributing to the decrease during the period was cash utilized for our Formation and Satamatics acquisitions. Of the \$47.2 million of cash as of December 31, 2009, \$39.3 million is held by subsidiaries outside of the U.S. These undistributed earnings are considered to be permanently reinvested and are not available for use in the U.S.

Operating activities from continuing operations contributed \$42.3 million in positive cash flows in 2009. Although we reported a loss from continuing operations loss of \$13.1 million in 2009, that loss included noncash charges for depreciation and amortization of \$20.0 million and an impairment loss on goodwill of \$19.9 million. We experienced good customer collections during the period and were able to lower inventory levels. Acquisition-related charges of \$3.1 million paid in 2009 are included as reductions of cash provided by operating activities in the consolidated statement of cash flows. Discontinued operations used cash of

\$0.6 million mainly for legal fees to defend us against claims made by the purchaser of our EMS Wireless division, net of tax benefits.

During 2009, we used \$87.3 million of cash to acquire our Formation and Satamatics businesses. These acquisitions were partially funded with approximately \$33.8 million of borrowings under our revolving credit facility. We subsequently repaid approximately \$15.3 million of borrowings under our revolving credit facility. We used \$13.4 million for purchases of capital equipment, the expansion of D&S's facility, and to upgrade the enterprise reporting system at LXE in 2009.

During 2008, cash and cash equivalents decreased by \$47.0 million to \$87.0 million as of December 31, 2008. The primary uses of cash during the period included \$31.6 million of cash used to acquire our Trux and Sky Connect businesses, \$13.9 million for purchases of capital equipment and the expansion of D&S's facility, and \$10.0 million to repurchase common shares under our share repurchase program.

Continuing operating activities contributed \$16.5 million in positive cash flows in 2008. Net earnings of \$20.5 million and noncash charges, primarily depreciation and amortization of \$12.5 million and stock-based compensation of \$2.3 million, were partially offset by increases in working capital.

During 2007, cash flow from continuing operating activities increased to \$42.1 million mainly due to the net earnings reported by each of our four segments, and significant collections of receivables by D&S and LXE. The \$3.3 million of net cash used in operating activities in discontinued operations was mainly for payments of working capital adjustments in accordance with the terms of the sales agreements for our former SatNet and EMS Wireless.

We have a revolving credit agreement with a syndicate of banks. Under the agreement, we have \$60 million total capacity for borrowing in the U.S. and \$15 million total capacity for borrowing in Canada. The agreement also has a provision permitting an increase in the total borrowing capacity of up to an additional \$50 million with additional commitments from the current lenders or from new lenders. The existing lenders have no obligation to increase their commitments. The credit agreement provides for borrowings through February 28, 2013, with no principal payments required prior to that date. The credit agreement is secured by substantially all of our tangible and intangible assets, with certain exceptions for real estate that secures existing mortgages, other permitted liens and for certain assets in foreign countries.

As of December 31, 2009, we had \$18.5 million of borrowings outstanding under this facility. We had \$2.5 million of outstanding letters of credit at December 31, 2009, and the net total available for borrowing under our revolving credit facility was \$54.0 million.

We expect that capital expenditures in 2010 will range from \$12 million to \$14 million, excluding acquisitions of businesses. These expenditures will be used to purchase equipment that increases or enhances capacity and productivity, and to upgrade the enterprise reporting system of our LXE division.

Management believes that existing cash and cash equivalent balances, cash provided from operations, and borrowings available under our credit agreement will provide sufficient liquidity to meet the operating and capital expenditure needs for existing operations during the next twelve months.

On July 29, 2008, our Board of Directors authorized a stock repurchase program for up to \$20 million of our common shares. We repurchased 495,000 common shares for approximately \$10.1 million under this program as of December 31, 2009.

We will make additional cash payments in 2010 of \$13.7 million related to acquisitions completed in 2009 based upon the achievement of performance targets in 2009, and an agreement to settle the 2010 earn-out amount. Refer to Note 2 of the consolidated financial statements for additional information on these acquisitions.

In March of 2010, we received an interim decision from the arbitrator on claims made by the purchaser of our former EMS Wireless division. The arbitrator awarded the purchaser a total of approximately \$9.2 million under the warranty provisions of the purchase agreement. We have sufficient cash resources to pay this award.

Off-Balance Sheet Arrangements

We have \$2.5 million of standby letters of credit outstanding under our revolving credit facility to satisfy performance guarantee requirements under certain customer contracts. While these obligations are not normally called, they could be called by the beneficiaries at any time before the expiration date, if we failed to meet certain contractual requirements. After deducting the outstanding letters of credit, at December 31, 2009 we had \$41.5 million available for borrowing in the U.S. and \$12.5 million available for borrowing in Canada under the revolving credit facility.

During 2009, we completed acquisitions of two entities. Of the total purchase price of these businesses, \$10.2 million of cash is in escrow accounts and is payable to the sellers within specified periods following the respective dates of acquisition, subject to claims we may make against the sellers.

The sales agreements for the disposal of our former S&T/Montreal, SatNet, and EMS Wireless divisions contain standard indemnification provisions for various contingencies that could not be resolved before the dates of closing and for various representations and warranties by the purchasers and us. The purchaser of EMS Wireless asserted claims under such representations and warranties. The parties agreed to arbitration, which commenced in the third quarter of 2009. In March of 2010, we received an interim decision from the arbitrator on these claims awarding the purchaser a total of approximately \$9.2 million under the warranty provisions of the purchase agreement. As a result, we accrued a liability for the awarded costs in discontinued operations in 2009. We accrue for a liability related to a contingency, representation or warranty when management considers that the liability is both probable and can be reasonably estimated. Prior to the decision by the arbitrator, we did not believe that sufficient information existed to evaluate such claims, and could not reasonably estimate the range of this liability, or determine whether such liability would be material. The interim award will not become final until the arbitrator determines awards of costs and attorneys' fees, which the parties will be briefing in the near future. It is not possible at this time to determine the amount of any additional award, but any such award would be reflected in discontinued operations when it becomes probable and estimable.

Also as part of the agreement to sell the net assets of S&T/Montreal, we released the purchaser from a corporate guarantee, and have reported a noncurrent liability in the consolidated balance sheet as of December 31, 2009. This liability represents our estimated loss under an agreement to acquire a license from the purchaser for \$8 million in payments over a seven-year period for the rights to a certain satellite territory and a corresponding sublicense agreement that granted the territory rights back to the purchaser, under which we will receive a portion of the satellite service revenues from the specific market territory over the same period. The purchaser had previously guaranteed that the revenues derived under the sublicense would equal or exceed the acquisition cost of the license; however, having released the guarantee, we currently estimate that our portion of the satellite service revenues will be less than the acquisition cost, and we have accordingly reflected a net liability as current in the consolidated balance sheet.

Commitments and Contractual Obligations

Following is a summary of our material contractual cash commitments as of December 31, 2009 (in thousands):

	<u>Total</u>	<u>Payments due by period</u>			
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Purchase commitments (1)	\$34,028	33,946	82	-	-
Long-term debt, excluding capital lease obligations (2)	27,748	1,396	3,052	21,359	1,941
Operating lease obligations	24,963	5,160	8,281	5,630	5,892
Acquisition costs for earn-out provisions	13,729	13,729	-	-	-
License to acquire satellite service	8,000	2,000	2,000	2,000	2,000
FIN 48-Uncertain tax positions	2,019	2,019	-	-	-
Deferred compensation agreements	709	156	198	34	321

- (1) Purchase commitments primarily represent existing commitments under purchase orders or contracts to purchase inventory and raw materials for our products. Most of these purchase orders and contracts can be terminated for a fee that is either fixed or based on when termination occurs.
- (2) Excludes interest payments on long-term debt. Future interest expense is unpredictable and varies depending on the level of borrowings outstanding, and the timing of repayments, and therefore has not been included in the above table. Interest payments in 2009 were approximately \$1.5 million. There was no accrued interest as of December 31, 2009.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, which often require the judgment of management in the selection and application of certain accounting principles and methods. We consider the following accounting policies to be critical to understanding our consolidated financial statements, because the application of these policies requires significant judgment on the part of management, and as a result, actual future developments may be different from those expected at the time that we make these critical judgments. We have discussed these critical accounting policies with the Audit Committee.

Revenue recognition

Revenue recognition for fixed-price, long-term contracts is a critical accounting policy involving significant management estimates by D&S, and Communications & Tracking. Long-term contracts use the ratio of cost-incurred-to-date to total-estimated-cost-at-completion as the measure of performance that determines how much revenue should be recognized (“percentage-of-completion” method of accounting). Cost incurred and estimates of cost to complete include overhead expenses, which are applied at a budgeted rate; the budgeted overhead rate has historically been closely comparable with the periodic actual overhead rate, but any budget-versus-actual rate variance during an accounting period is expensed in that period, with no effect on revenues recognized.

The determination of total estimated cost relies on engineering estimates of the cost to complete the contract, with allowances for identifiable risks and uncertainties. If changes in engineering estimates result in an expected cost overrun but not an overall loss on the contract (i.e., the estimated cost to complete exceeds the revenue to be recognized on the remainder of the contract), then revenue recognized-to-date will be adjusted accordingly based on the application of the percentage-of-completion method. If changes in engineering estimates result in the total estimated cost-at-completion in excess of total contract value, the entire estimated loss is immediately recognized. Engineering estimates are frequently reviewed and updated; however,

unforeseen problems can occur to substantially reduce the rate of future revenue recognition in relation to costs incurred.

Billings under a long-term contract are often subject to the accomplishment of contractual milestones or specified billing arrangements that are not directly related to the rate of costs being incurred under a contract. As a result, revenue recognized under percentage-of-completion for any particular period may vary from billings for the same period. As of December 31, 2009, we had recognized a cumulative total of \$33.1 million in revenues under percentage-of-completion accounting, for which revenues were unbilled as of that date due to the billing milestones specified in the respective customer contracts. This is included in estimated earnings in excess of billings on long-term contracts and other non-current assets in our consolidated balance sheets. We had also recognized \$9.6 million in billings in excess of contract costs and estimated earnings on long-term contracts. This is included in noncurrent liabilities in our consolidated balance sheets.

Net sales under cost-reimbursement contracts in D&S are recorded as costs are incurred and include an estimate of fees earned under specific contract terms. Costs incurred include overhead, which is applied at rates approved by the customer. Fixed fees are earned ratably over the life of a contract. Incentive fees are based upon achievement of objective criteria for technical product performance or delivery milestones, although such fees may also be based upon subjective criteria (for example, the customer's qualitative assessment of our project management). In all cases related to incentive fee arrangements, we do not record revenue until the fee has been earned under the terms of the contract.

We recognize revenue from product-related service contracts, and extended warranties, ratably over the life of the contract. Amounts paid by customers at the inception of the extended warranty period are reflected as deferred revenue with the portion estimated to be recognized as revenue within the next twelve months reflected in other current liabilities in the consolidated balance sheets and the remainder reflected in noncurrent liabilities. We recognize revenue from repair services and tracking, voice and data services as services are rendered. We recognize revenue from contracts for engineering services using the percentage-of-completion method for fixed price contracts, or as costs are incurred for cost-type contracts.

Net sales under all arrangements are recognized when units are shipped or services are performed, unless multiple deliverables are involved or software is more than incidental to a product as a whole (mainly experienced at Communications & Tracking), in which case we recognize revenue in accordance with either ASC Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements*, or ASC Subtopic 985-605, *Software-Revenue Recognition*, as applicable. Net sales do not include sales tax collected.

Inventory valuation

We reduce the carrying amount of our inventory for estimated obsolete and slow-moving inventory to its estimated net realizable value based on assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional adjustments could be required. Such adjustments reduce the inventory's cost basis, and the cost basis is not increased upon any subsequent increases in estimated net realizable value.

Evaluation of fair value measurements

We adopted ASC Topic 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities on January 1, 2008, and for non-financial assets and liabilities on January 1, 2009. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the new guidance establishes a three-tier fair-value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs consisting of quoted prices in active markets;

- Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Business combinations

We account for business combinations in accordance with the provisions of ASC Topic 805, *Business Combinations* (“ASC 805”). The provisions of ASC 805 were previously contained in Statement of Financial Accounting Standards (“SFAS”) No. 141(R), *Business Combinations*. These provisions require that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. Transaction costs are expensed as incurred, and are classified within cash flows from operating activities in the consolidated statement of cash flows. Costs associated with restructuring or exit activities of an acquired entity are also expensed when incurred. Contingent consideration in a business combination is recognized at fair value at the acquisition date as a liability or as equity. Subsequent adjustments of an amount recognized as a liability, including accretion of the discounted liability, are recognized in the statement of operations.

ASC 805 requires that we recognize and measure deferred tax assets or liabilities arising from assets acquired and liabilities assumed to be accounted for in accordance with the provisions of ASC Topic 740, *Income Taxes*, with appropriate allowances for uncertain tax positions and valuation allowances against deferred tax assets. Subsequent changes to valuation allowances against deferred tax assets after the measurement period are recognized as an adjustment to income tax expense.

An intangible asset is recognized as an asset apart from goodwill if it arises from contractual or other legal rights or if it is separable, that is, it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged. Goodwill is recognized as a result of a business combination to the extent the consideration transferred exceeds the acquisition-date amounts of identifiable assets acquired and liabilities assumed, determined in accordance with the provisions of ASC 805.

In accordance with ASC Topic 350, *Intangibles – Goodwill and Other* (“ASC 350”), goodwill and intangible assets acquired in a business combination and determined to have indefinite useful lives are not being amortized, but instead are evaluated for impairment annually, and between annual tests if an event occurs or circumstances change that indicate that the asset might be impaired.

ASC 350 requires that if the fair value of a reporting unit is less than its carrying amount, including goodwill, further analysis is required to measure the amount of the impairment loss, if any. The amount by which the reporting unit’s carrying amount of goodwill exceeds the implied fair value of the reporting unit’s goodwill, determined in accordance with ASC 350, is to be recognized as an impairment loss. During 2009, we changed the annual impairment testing date from December 31 to the first day of our twelfth reporting period in the fiscal year. We believe this change is preferable since it provides additional time prior to our year-end to complete the goodwill impairment testing and report the results in our Annual Report on Form 10-K.

In accordance with ASC 350, intangible assets, other than those determined to have an indefinite life, are amortized to their estimated residual values on a straight-line basis, or on the basis of expected economic benefit, over their estimated useful lives. These intangible assets are reviewed for impairment in accordance with ASC Subtopic 360-35, *Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of an asset to be held and used is measured by comparing its carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge would be recognized for the amount by which the carrying amount of the asset exceeds its fair value. An asset to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. Cash flow projections, although subject to a degree of uncertainty, are based on management’s estimates of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Evaluation of long-lived assets for impairment

All long-lived assets on the consolidated balance sheet are periodically reviewed for impairment. If an indication of impairment arises, we test recoverability by estimating the cash flows expected to result from the long-lived assets under several different scenarios, including the potential sale of assets, as well as continued holding of the assets under several different kinds of business conditions.

Evaluation of goodwill for impairment

We have four reporting units with goodwill from prior acquisitions reported on the balance sheet at December 31, 2009. In completing the annual test for impairment in the fourth quarter of 2009, the estimated fair value of three of our four reporting units with goodwill exceeded the carrying amount. The determination of estimated fair value includes a number of assumptions that drive the value and these assumptions inherently include a level of uncertainty. Future events, circumstances, or both, could have a negative effect on the fair value of any or all of the reporting units which could result in the fair value not exceeding the carrying amount in future tests. If this were to occur, we would be required to measure the amount, if any, of an impairment loss of goodwill.

For our LXE reporting unit, the estimated fair value did not exceed the carrying amount. Therefore, we completed step two of the impairment testing process to measure the amount of the impairment loss. While the carrying amount exceeded the estimated fair value by only \$6.0 million, the impairment loss was measured as \$19.9 million. The requirements to determine the impairment loss stipulate that the estimated fair value of all assets and liabilities of the reporting unit be determined similar to the method used in a business combination. The aggregate fair value of the assets and liabilities, including those not reflected in the carrying amount, is compared to the estimated reporting unit fair value with the difference being implied goodwill. The excess of goodwill on the balance sheet and this implied goodwill is the impairment loss. For a reporting unit with unrecognized intangible assets or other assets whose fair value exceeds the carrying amount, the impairment loss will exceed the reporting unit fair value deficiency since the accounting rules do not allow for a step up in fair value for these other assets in this process. The LXE reporting unit was last tested for impairment as of the end of the first quarter in 2009. At that time no impairment of goodwill was indicated. LXE's results for the remainder of the year improved from the first quarter, however, they were somewhat below revised expectations. In developing the 2010 operating plan for the reporting unit, and the longer-term cash flow projections, the cash flows are now projected to be less than previously estimated. Furthermore, the discount rate used to determine the present value of the estimated future cash flows is now higher.

The amount of goodwill for each reporting unit that passed the initial step of the impairment test as of December 31, 2009, and the percentage by which the estimated fair value exceeded the carrying amount of the reporting unit is as follows (dollars in thousands):

	Reported Goodwill	Estimated Fair Value in Excess of Carrying Amount
Formation	\$ 24,060	5.9 %
Satamatics	23,429	2.5
Sky Connect	11,048	11.0

Each of these reporting units was recently acquired. At the acquisition date, the carrying amount of a reporting unit is equal to its purchase price. Therefore, a significant excess would not be expected for a recently acquired reporting unit. The key assumptions that drive the estimated fair value of the reporting units include future cash flows from operations, the discount rate applied to those future cash flows, determined from a weighted-average cost of capital calculation, and EBITDA and revenue multiples using guideline comparable companies. The future cash flows include additional key assumptions relating to revenue growth rates, margins and costs. The estimated revenue growth rates for each of these reporting units are in excess of anticipated inflation and industry forecasts in general since the revenues of these reporting units have been

negatively impacted by the global economic environment in recent years so we expect a recovery to impact revenues favorably. Furthermore, several of these reporting units operate in growing markets. In addition, our reporting units are introducing a number of new products in the near future that we expect to be well received in the market. In the near term, we believe that these reporting units will see the impact of a rebounding economy over the next two years that will support such growth projections. Actual future results could differ materially from these estimates which could have a negative effect on fair value. Particularly, if the markets served by these reporting units do not expand as we expect, the fair value of one or more of the reporting units could be determined to be below the carrying amount.

The carrying amount of consolidated net assets on our balance sheet as of the goodwill impairment testing date exceeded the market capitalization of our common stock by approximately 30% prior to recording the \$19.9 million loss on impairment of goodwill for LXE. At December 31, 2009, the carrying amount of net assets exceeded the market capitalization by 7%. At March 26, 2010, the market capitalization of our common stock was 14% higher than the December 31, 2009 level.

Evaluation of contingencies related to discontinued operations

In 2005 and 2006, we disposed of S&T/Montreal, SatNet, and EMS Wireless, all of which have been reported as discontinued operations. The costs reported under discontinued operations in 2007 and 2009 mainly related to the resolution of various contingencies, representations or warranties under standard indemnification provisions in the sales agreements. We record a liability related to a contingency, representation or warranty when management considers that the liability is both probable and can be reasonably estimated. The amounts we have accrued related to the expected resolution of the dispositions of discontinued operations that could vary from the actual amounts.

The purchaser of EMS Wireless asserted claims under such representations and warranties. The parties agreed to arbitration, which commenced in the third quarter of 2009. In March of 2010, we received an interim decision from the arbitrator on these claims awarding the purchaser a total of approximately \$9.2 million under the warranty provisions of the purchase agreement. As a result, we accrued a liability for the awarded costs in discontinued operations in 2009. We accrue for a liability related to a contingency, representation or warranty when management considers that the liability is both probable and can be reasonably estimated. Prior to the decision by the arbitrator, we did not believe that sufficient information existed to evaluate such claims, and could not reasonably estimate the range of this liability, or determine whether such liability would be material. The interim award will not become final until the arbitrator determines awards of costs and attorneys' fees, which the parties will be briefing in the near future. It is not possible at this time to determine the amount of any additional award, but any such award would be reflected in discontinued operations when it becomes probable and estimable.

Income taxes

As part of the process of preparing our consolidated financial statements, we are required to determine income taxes related to each of the jurisdictions in which we operate. This process involves estimating current tax expense, together with assessing temporary differences resulting from differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. These differences result in deferred tax assets and liabilities in our consolidated balance sheet.

For all deferred tax assets that exist in relation to an uncertain tax position, we must determine the amount of that benefit to recognize in accordance with the recognition and measurement provisions of FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (which is now included in ASC Subtopic 740-10-05, *Income Taxes*). This determination requires judgments to be made regarding the likelihood that the position would be sustained upon examination based on the technical merits of the position and estimates of the amount to be realized upon settlement. A portion of the unrecognized tax benefits that exist at December 31, 2009 would affect our effective tax rate in the

future if recognized. In 2009 we lowered the amount of unrecognized benefits by \$1.9 million related to prior-year research and development credits in the U.S. after completion of an Internal Revenue Service examination.

We must also assess the likelihood that the deferred tax assets in each jurisdiction will be recovered from taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance against the deferred tax assets. In determining the required level of valuation allowance, we consider whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. This assessment is based on management's expectations as to whether sufficient taxable income of an appropriate character will be realized within tax carryback and carryforward periods. Our assessment involves estimates and assumptions about matters that are inherently uncertain, and unanticipated events or circumstances could cause actual results to differ from these estimates. Should we change our estimate of the amount of deferred tax assets that we would be able to realize, a change to the valuation allowance would result in an increase or decrease to the provision for income taxes in the period in which such change in estimate is made.

Our most significant amount of deferred tax assets relates to our Canadian operations, primarily from research-related tax benefits. A valuation allowance has been established for a portion of the Canadian deferred tax assets. It had been management's expectation until 2005 that our Canadian operations would generate enough research-related tax benefits each year to offset any Canadian federal tax liability for any given year. As a result, we had reserved substantially all the net deferred tax assets associated with these research-related tax benefits because the extent to which these deferred income tax assets were to be realized in the future was uncertain. With the disposal of unprofitable operations beginning in 2005 and the improving profitability of continuing operations in Canada, we have reassessed the required amount of valuation allowance against our research-related deferred tax assets in Canada each year. We have made adjustments each year in which we concluded that it was more likely than not that additional tax benefits would be realized based on an assessment of all available evidence. The valuation allowance could be increased or decreased in the future, which would result in an income tax expense or benefit in future consolidated statements of operations. A benefit could result if profitability expectations for our Canadian operations increase.

We also have net deferred tax assets in the U.S., including net operating loss and research and development credit carryforwards from acquired companies. We completed our assessment in 2009 and determined that no valuation allowance was necessary for those deferred tax assets based on a consideration of all available evidence about sources of taxable income. We will make an evaluation of the likelihood of realization each reporting period in the future, and we could determine that a valuation allowance is necessary against all, or a portion, of the these deferred tax assets.

Stock-based compensation

We measure compensation expense based on estimated fair values of all share-based awards to our employees and directors. We estimate the fair value of stock options on the date of grant using the Black-Scholes option valuation model. Stock-based compensation is recognized on a straight-line basis over the requisite service period for each separately vesting portion of an award as if the award was, in substance, multiple awards. We estimate future forfeitures based on historical experience and review such estimates periodically and adjust expense recognition accordingly.

The Black-Scholes option valuation model requires additional estimates and assumptions, including expected stock price volatility, expected term, and forfeitures rates. Our estimated expected volatility is based on historical volatility of our stock over a period equal to the expected term. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding. Forfeitures are based on actual forfeiture rates experienced.

Risk Factors and Forward-Looking Statements

The Company has included forward-looking statements in management's discussion and analysis of financial condition and results of operations. Actual results could differ materially from those suggested in any forward-looking statements as a result of a variety of factors. Such factors include, but are not limited to:

- economic conditions in the U.S. and abroad and their effect on capital spending in our principal markets;
- difficulty predicting the timing of receipt of major customer orders, and the effect of customer timing decisions on our results;
- our successful completion of technological development programs and the effects of technology that may be developed by, and patent rights that may be held or obtained by, competitors;
- U.S. defense budget pressures on near-term spending priorities;
- uncertainties inherent in the process of converting contract awards into firm contractual orders in the future;
- volatility of foreign currency exchange rates relative to the U.S. dollar and their effect on purchasing power by international customers, and on the cost structure of our operations outside the U.S., as well as the potential for realizing foreign exchange gains and losses associated with assets or liabilities denominated in foreign currencies;
- successful resolution of technical problems, proposed scope changes, or proposed funding changes that may be encountered on contracts;
- changes in our consolidated effective income tax rate caused by the extent to which actual taxable earnings in the U.S., Canada and other taxing jurisdictions may vary from expected taxable earnings and the extent to which determined tax assets are considered realizable;
- successful transition of products from development stages to an efficient manufacturing environment;
- changes in the rate at which our products are returned for repair or replacement under warranty;
- customer response to new products and services, and general conditions in our target markets (such as logistics and space-based communications) and whether these responses and conditions develop according to our expectations;
- the increased potential for asset impairment charges as unfavorable economic or financial market conditions, or other developments might affect the estimated fair value of one or more of our business units;
- the success of certain of our customers in marketing our line of high-speed commercial airline communications products as a complementary offering with their own lines of avionics products;
- the continued availability of financing for various mobile and high-speed data communications systems;
- risk that the unsettled conditions in the credit markets may make it more difficult for some customers to obtain financing and adversely affect their ability to pay, which in turn could have an adverse impact on our business, operating results and financial condition;
- development of successful working relationships with local business and government personnel in connection with the distribution and manufacture of products in foreign countries;
- the demand growth for various mobile and high-speed data communications services;
- our ability to attract and retain qualified senior management and other personnel, particularly those with key technical skills;
- our ability to effectively integrate our acquired businesses, products or technologies into our existing businesses and products, and the risk that any such acquired businesses, products or technologies do

not perform as expected, are subject to undisclosed or unanticipated liabilities, or are otherwise dilutive to our earnings;

- the potential effects, on cash and results of discontinued operations, of final resolution of potential liabilities under warranties and representations that we made, and obligations assumed by purchasers, in connection with our dispositions of discontinued operations;
- the availability, capabilities and performance of suppliers of basic materials, electronic components and sophisticated subsystems on which we must rely in order to perform according to contract requirements, or to introduce new products on the desired schedule; and
- uncertainties associated with U.S. export controls and the export license process, which restrict our ability to hold technical discussions with customers, suppliers and internal engineering resources and can reduce our ability to obtain sales from customers outside the U.S. or to perform contracts with the desired level of efficiency or profitability.

Additional information concerning these and other potential risk factors is included in Item 1A. of this Annual Report on Form 10-K under the caption “Risk Factors.”

Effect of New Accounting Pronouncements

— *Recently Issued Pronouncements Not Yet Adopted*

In October 2009 the FASB issued two Accounting Standards Updates (“ASU”) that could result in revenue being recognized earlier in certain revenue arrangements with multiple deliverables. Both updates are effective for us in the first quarter of 2011. Early adoption is permitted. We are evaluating when to adopt the updates and the effect the adoption will have on our consolidated financial statements.

ASU 2009-13, *Revenue Recognition – Multiple-Deliverable Revenue Arrangements*, amends the accounting for revenue arrangements with multiple deliverables. Among other things, ASU 2009-13:

- Eliminates the requirement for objective evidence of fair value of an undelivered item for treatment of the delivered item as a separate unit of accounting;
- Requires use of the relative selling price method for allocating total consideration to elements of the arrangement instead of the relative-fair-value method or the residual method;
- Allows the use of an estimated selling price for any element within the arrangement to allocate consideration to individual elements when vendor-specific objective evidence or other third party evidence of selling price do not exist; and
- Expands the required disclosures.

ASU 2009-14, *Software – Certain Revenue Arrangements That Include Software Elements*, amends the guidance for revenue arrangements that contain tangible products and software elements. ASU 2009-14 redefines the scope of arrangements that fall within software revenue recognition guidance by specifically excluding tangible products that contain software components that function together to deliver the essential functionality of the tangible product.

Under current guidance, products that contain software that is more than incidental to the product as a whole fall within the scope of software revenue recognition guidance, which requires, among other things, the existence of vendor-specific objective evidence of fair value of all undelivered items to allow a delivered item to be treated as a separate unit of accounting. Such tangible products excluded from the requirements of software revenue recognition requirements under ASU 2009-14 would follow the revenue recognition requirements for other revenue arrangements, including the new requirements for multiple-deliverable arrangements contained in ASU 2009-13.

In January 2010, the FASB issued guidance amending and clarifying requirements for fair value measurements and disclosures in ASU 2010-06, *Improving Disclosures About Fair Value Measurements*. The new guidance requires disclosure of transfers in and out of Level 1 and Level 2 and a reconciliation of all activity in Level 3. The guidance also requires detailed disaggregation disclosure for each class of assets and liabilities in all

levels, and disclosures about inputs and valuation techniques for Level 2 and Level 3. The guidance is effective at the start of interim or annual reporting periods beginning after December 15, 2009 and the disclosure reconciliation of all activity in Level 3 is effective at the start of annual reporting periods beginning after December 15, 2010. We do not expect that the adoption of ASU 2010-06 will have a material impact on our consolidated financial statements.

Refer to Note 1 of our consolidated financial statements in this Annual Report for additional information on accounting changes recently adopted, and recently issued pronouncements not yet adopted.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2009, we had the following market-risk sensitive instruments (in thousands):

Government-obligations money market funds, other money market instruments, and interest-bearing time deposits, with maturity dates of less than 3 months interest payable monthly at variable rates (a weighted-average rate of 0.2% at December 31, 2009)	\$18,165
Revolving credit agreement with U.S. and Canadian banks, maturing in February 2013, interest payable quarterly at a variable rate (3.75% at December 31, 2009)	\$18,500

A 100 basis point change in the interest rates of our market-risk sensitive instruments would have changed interest income by approximately \$237,000 for the year based upon their respective average outstanding balances.

Our revolving credit agreement includes variable interest rates based on the lead bank’s prime rate or the then published LIBOR for the applicable borrowing period. As of December 31, 2009 we had approximately \$18.5 million of borrowings outstanding in the U.S., and no borrowings outstanding under in Canadian under our revolving credit agreement. A 100 basis point change in the interest rate on our revolving credit agreement would have changed interest expense by approximately \$227,000 for the year based upon the average outstanding borrowings under these obligations.

At December 31, 2009, we also had intercompany accounts that eliminate in consolidation but that are considered market-risk sensitive instruments because they are denominated in a currency other than the local functional currency. These include short-term amounts due to the parent (payable by international subsidiaries arising from purchase of the parent’s products for sale), intercompany sales of products from foreign subsidiaries to a U.S. subsidiary and cash advances to foreign subsidiaries.

	Exchange Rate (USD per unit of local currency)	USD in thousands (reporting currency)
Australia	0.8983 /AUD	\$ 2,246
Canada	0.9515 /CAD	1,482
Sweden	0.1397 /SEK	1,382
France	1.4316 /EUR	375
Italy	1.4316 /EUR	272
Netherlands	1.4316 /EUR	<u>224</u>
Total amount subject to foreign currency risk		<u>\$ 5,981</u>

We had accounts receivable and accounts payable balances denominated in currencies other than the functional currency of the local entity at December 31, 2009 as follows:

Currency Denomination	Functional Currency	Exchange Rate Functional Currency per Denominated Currency	USD Equivalent (in thousands)
<i>Accounts Receivable</i>			
USD	CAD	1.0510	\$ 14,951
USD	EUR	0.6985	634
EUR	SEK	10.2529	173
EUR	GBP	0.8866	150
Other currencies			205
			<u>\$ 16,113</u>
<i>Accounts Payable</i>			
GBP	CAD	1.6918	\$ 1,154
USD	CAD	1.0510	847
EUR	SEK	10.2529	686
EUR	GBP	0.8866	531
GBP	USD	1.6163	284
AUD	CAD	0.9395	142
Other currencies			268
			<u>\$ 3,912</u>

We also had cash accounts denominated in currencies other than the functional currency of the local entity at December 31, 2009 as follows:

Currency Denomination	Functional Currency	Exchange Rate Functional Currency per Denominated Currency	USD Equivalent (in thousands)
USD	CAD	1.0510	\$ 2,876
GBP	CAD	1.6918	1,909
GBP	USD	1.6163	1,787
EUR	SEK	10.2529	504
AUD	CAD	0.9395	292
Other currencies			566
			<u>\$ 7,934</u>

We enter into foreign currency forward and option contracts in order to mitigate the risks associated with currency fluctuations on future fair values of foreign denominated assets and liabilities. At December 31, 2009, we had forward contracts as follows (in thousands, except average contract rate):

	<u>Notional Amount</u>	<u>Average Contract Rate</u>	<u>Fair Value (USD)</u>
Foreign currency forward contracts:			
U.S. dollars (sell for Canadian dollars)	15,000 USD	1.0509	\$ 40
Euros (sell for U.S. dollars)	250 EUR	1.4259	(1)
			<u>\$ 39</u>

Item 8. Financial Statements and Supplementary Data

Information required for this item is contained in the Consolidated Financial Statements and Notes to Consolidated Financial Statements included immediately after the Signature Page of this Annual Report on Form 10-K and incorporated herein by this reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company has established disclosure controls and procedures to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, within a company have been detected.

The Company's management, including the CEO and CFO, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2009, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls were effective as of December 31, 2009.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's businesses except for the operations of Formation and Satamatics, acquired in January 2009, and February 2009, respectively. These two businesses constituted approximately \$122.7 million of the total assets and \$60.2 million of the total revenues included in the Company's consolidated financial statements as of and for the year ended December 31, 2009. Further discussion of these acquisitions can be found in Note 2 of our consolidated financial statements. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements for external purposes, in accordance with generally accepted accounting principles. Management conducted its evaluation of the effectiveness of the

Company's internal control over financial reporting as of December 31, 2009 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework, and concluded that the Company's internal control over financial reporting was effective as of December 31, 2009 based on these criteria.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company, has issued an audit report on the Company's internal control over financial reporting. The report is included in Item 9A.(d) under the heading *Report of Independent Registered Public Accounting Firm*.

(c) Changes in Internal Control Over Financial Reporting

In the fourth quarter of 2009, the Company was required to complete its annual assessment of goodwill for impairment for two additional reporting units, changed the date within the fourth quarter in which it completes its annual assessment, and was required to measure the amount of goodwill impairment loss at its LXE reporting unit. The Company enhanced its controls in connection with each of these related matters. Except for these items, there were no changes in internal control over financial reporting that occurred during the fourth quarter of 2009 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting (as defined in Rule 13a – 15(f) under the Exchange Act).

(d) Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
EMS Technologies, Inc.:

We have audited EMS Technologies, Inc.'s (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting (Item 9A.(b)). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based upon the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that

controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

EMS Technologies, Inc. acquired Formation, Inc. (“Formation”) and Satamatics Global Limited (“Satamatics”) during 2009, and management excluded from its assessment of the effectiveness of EMS Technologies, Inc.’s internal control over financial reporting as of December 31, 2009, Formation and Satamatics internal control over financial reporting associated with total assets of \$122.7 million and total revenues of \$60.2 million included in the consolidated financial statements of EMS Technologies, Inc. and subsidiaries as of and for the year ended December 31, 2009. Our audit of internal control over financial reporting of EMS Technologies, Inc. also excluded an evaluation of the internal control over financial reporting of Formation, Inc. and Satamatics Global Limited.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EMS Technologies, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders’ equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 31, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Atlanta, Georgia
March 31, 2010

Item 9B. Other Information.

None.