

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009, 2008 and 2007**

(1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

EMS Technologies, Inc. (“EMS”) designs, manufactures and markets products to satellite and wireless communications markets for both commercial and defense applications. EMS’s products are focused on the needs of the mobile information user, with an increasing emphasis on broadband applications for high-data-rate, high-capacity wireless communications.

The consolidated financial statements include the accounts of EMS Technologies, Inc. and its wholly owned subsidiaries (collectively, “the Company”). All significant intercompany balances and transactions have been eliminated in consolidation. There are no other entities controlled by the Company, either directly or indirectly. Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 presentation.

The accompanying consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and are based on the Securities and Exchange Commission’s (“SEC”) Regulation S-X and its instructions to Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date and reporting of revenue and expenses during the period. Actual future results could differ materially from those estimates. We have also performed an evaluation of subsequent events through the date the financial statements were issued.

Following is a summary of the Company’s significant accounting policies:

— *Revenue Recognition*

Net sales are derived from sales of the Company’s products to end-users, value-added resellers, other manufacturers or systems integrators and distributors; service to support such products; and research and development arrangements under specific requirements of customer contracts. Net sales are generally recognized when completed units are shipped and as services are performed, unless multiple deliverables are involved or software is more than incidental to a product as a whole, in which case we recognize revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements*, or ASC Subtopic 985-605, *Software-Revenue Recognition*, as applicable. 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 other 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 certain long-term contracts of our D&S and Communications & Tracking segments, many of which provide for periodic payments, are recognized under the percentage-of-completion method using the ratio of cost incurred to total estimated cost as the measure of performance. Estimated costs at completion for these contracts are reviewed on a routine periodic basis, and adjustments are made to the estimated costs 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 loss resulting from cost overruns is immediately recognized.

The Company establishes budgeted overhead rates, which are used to apply overhead costs to projects to calculate the estimated cost to complete for revenue recognition calculations. The Company expenses the monthly rate variance between actual overhead expenses incurred versus overhead expenses applied at

budgeted rates. The monthly rate variance has no effect on the Company's calculation of revenues to be recognized under percentage-of-completion accounting.

In applying the percentage-of-completion method of accounting, certain contracts may have revenue recognized in excess of billings (costs and estimated earnings in excess of billings), and other contracts may have billings in excess of revenue recognized (billings in excess of contract costs and estimated earnings). Under long-term contracts, the prerequisites for billing the customer for periodic payments generally involve the Company's achievement of contractually specific, objective milestones (e.g., completion of design, testing, or other engineering phase, delivery of test data or other documentation or delivery of an engineering model or flight hardware). Costs and estimated earnings in excess of billings under long-term contracts are usually billed and collected within one year. Such amounts are reflected in current assets on the consolidated balance sheet. The amounts estimated to be collected after one year of \$7.8 million as of December 31, 2009, and \$0.6 million as of December 31, 2008 are included in other noncurrent assets in the consolidated balance sheet.

Net sales under cost-reimbursement contracts in D&S are recognized depending on the type of fee specified in the contract. Contracts may have a fixed fee, award fee or a combination of both. A fixed fee is recognized over the performance of a cost-reimbursement contract in the same ratio as the costs incurred to date to the total target contract costs at completion. This same ratio is used for both billing the customer and recognizing net sales. If the expected costs to be incurred under the contract subsequently become materially different from the original estimated total costs, the fixed fee ratio and related fee recognition are adjusted accordingly. If the contract includes a clause for partial withholding of the fee pending specific acceptance or performance criteria, then the amount of withheld fee to be recognized will depend upon management's evaluation of the likelihood of the withheld fee amount being paid. An award or incentive fee is usually variable based upon specific performance criteria stated in the contract. Award or incentive fees are recognized only upon achieving the contractual criteria and after the customer has approved or granted the award or incentive.

— *Government Research Incentives*

The Communications & Tracking segment receives government-sponsored research incentives in the form of cash reimbursement for a portion of certain qualified research expenditures. These incentives are recorded as a reduction of cost of sales if the underlying research efforts are to meet specific requirements of customer contracts. Otherwise, they are recorded as a reduction of research and development expense.

— *Cash Equivalents*

The Company considers all highly liquid debt instruments with initial or remaining maturities of three months or less when purchased to be cash equivalents. Cash equivalents as of December 31, 2009 and 2008 included investments of \$18.2 million and \$78.9 million, respectively, in government-obligations money market funds, in other money market instruments, and in interest-bearing deposits. Cash and cash equivalents that are restricted under escrow agreements are not available for general use in the Company's operations and are classified in other current assets or other noncurrent assets in the Company's consolidated balance sheets.

— *Inventories*

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value). Work-in-process consists of raw material and production costs, including indirect manufacturing costs. 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.

— *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the respective assets which are as follows:

Buildings	20 to 40 years
Machinery and equipment	3 to 8 years
Furniture and fixtures	4 to 10 years

Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the respective leases. Total depreciation expense was \$10.3 million, \$10.0 million, and \$8.0 million for 2009, 2008, and 2007, respectively.

— *Long-Lived Assets*

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. If assets are to be disposed of, such assets are reported at the lower of carrying amount or fair value less costs to sell, and no longer depreciated.

— *Goodwill and Other Intangible Assets*

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. 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. Such identifiable intangible assets are recorded at fair value at the date of acquisition. 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.

The Company completes its annual evaluation of goodwill for impairment in the fourth quarter of each fiscal year. ASC Topic 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 Topic 350, is to be recognized as an impairment loss. As a result of the Company's annual evaluation of goodwill in the fourth quarter of 2009, the Company recorded an impairment charge of \$19.9 million related to the Company's LXE segment. Refer to Note 3 for additional information.

During 2009, the Company changed its annual impairment testing date from December 31 to the first day of the Company's twelfth reporting period in the fiscal year, which was November 29 for the year ended December 31, 2009. The Company believes this change is preferable since it provides additional time prior to the Company's year-end to complete the goodwill impairment testing and report the results in its Annual Report on Form 10-K.

In accordance with ASC Topic 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 economic benefit, over their estimated useful lives. The useful life of the intangible asset is the period over which the asset is expected to contribute directly or indirectly to the entity's future cash flows. These intangible assets are reviewed for impairment in accordance with ASC Topic 360-10-05, *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.

Unfavorable economic or financial market conditions or other developments may affect the fair value of one or more of the Company's business units and it is reasonably possible that the Company may be required to record additional asset impairment charges in the future. As of December 31, 2009, the Company had approximately \$60.3 million of goodwill and \$49.3 million of other intangible assets on the consolidated balance sheet, collectively representing approximately 29% of total assets. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in the Company's share price and market capitalization, a decline in expected future cash flows for one or more business units, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower-than-expected growth rates, among others. If the Company is required to recognize an additional impairment loss related to goodwill or long-lived assets, the related charge, although a noncash charge, could materially impact reported earnings or loss from continuing operations for the period in which the impairment loss is recognized.

— *Loss Contingencies*

We record a liability for a loss contingency when the loss is considered probable to occur and can be reasonably estimated. Legal costs related to a loss contingency are recorded when costs are incurred.

— *Income Taxes*

The Company provides for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are classified as current or noncurrent based upon the nature of the underlying temporary differences. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company assesses the recoverability of deferred tax assets based on estimates of future taxable income and establishes a valuation allowance against its deferred tax assets in a jurisdiction if it believes that it is more likely than not that the deferred tax assets will not be recoverable.

On January 1, 2007, the Company adopted the 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*), which prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the income tax expense line item in its consolidated statements of operations.

— *Earnings Per Share*

Basic earnings per share is the per-share allocation of income available to common shareholders based only on the weighted-average number of common shares actually outstanding during the period. Diluted earnings per share represents the per-share allocation of income attributable to common shareholders based on the weighted-average number of common shares actually outstanding plus all potential common share equivalents outstanding during the period, if dilutive. The Company uses the treasury stock method to determine diluted earnings per share.

The following table is a reconciliation of the denominator for basic and diluted earnings per share calculations for the years ended December 31, 2008 and 2007 (in thousands). Potential dilutive shares were excluded from the computation of diluted net loss per share for the year ended December 31, 2009, because the effect of their inclusion would have been anti-dilutive:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Basic weighted-average number of common shares outstanding	15,169	15,452	15,354
Dilutive potential shares using the treasury share method	<u>-</u>	<u>176</u>	<u>128</u>
Diluted weighted-average number of common shares outstanding	<u>15,169</u>	<u>15,628</u>	<u>15,482</u>
Shares that were not included in computation of diluted earnings per share that could potentially dilute future basic earnings per share because their effect on the periods were antidilutive	<u>1,045</u>	<u>341</u>	<u>44</u>

— *Stock-Based Compensation*

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. The Company estimates future forfeitures based on historical experience and review such estimates periodically and adjust expense recognition accordingly.

— *Foreign Currency Translation*

The functional currency is generally the local currency for each of the Company's subsidiaries. The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates in effect at the balance sheet date. Revenues and expenses are translated using average monthly exchange rates. The resulting translation adjustments are recorded as accumulated other comprehensive income in the accompanying consolidated statements of shareholders' equity and comprehensive income.

Certain transactions produce receivables or payables denominated in a currency other than the functional currency. Any subsequent changes in exchange rates between the functional currency and the currency in which a transaction is denominated generates a foreign currency transaction gain or loss that is generally included in determining net earnings. However, gains or losses resulting from intercompany foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future) are reported in the same manner as translation adjustments.

— *Comprehensive Income*

Comprehensive income consists of net earnings, foreign currency translation adjustments and reclassification due to the sale of discontinued operations, and is presented in the consolidated statements of shareholders' equity and comprehensive income.

— *Derivative Financial Instruments*

The Company uses derivative financial instruments (foreign currency forward contracts) to economically hedge currency fluctuations in future cash flows denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. The Company has established policies and procedures for risk assessment and for the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into derivative financial instruments for trading or speculative purposes.

None of the derivative financial instruments are designated as a hedge for accounting purposes. Therefore, each instrument is reflected at fair value in the consolidated balance sheet with the change in fair value reflected in earnings.

— *Warranties*

The Company provides a limited warranty for a variety of its products. The specific terms and conditions of the warranties vary depending upon the specific products and markets in which the products are sold. The Company records a liability at the time of sale for the estimated costs to be incurred under warranties, based on historical, as well as expected, experience. The warranty liability is periodically reviewed for adequacy and adjusted as necessary.

— *Accounting Changes Recently Adopted*

In the third quarter of 2009, the Company adopted the FASB Statement of Financial Accounting Standards (SFAS) No. 168, *FASB Accounting Standards Codification and Hierarchy of GAAP*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* and establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is meant to be a codification of existing GAAP, therefore, the adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for all financial instruments. Effective January 1, 2009, the Company adopted the provisions of SFAS No. 157 for nonfinancial instruments accounted for at fair value on a nonrecurring basis. SFAS No. 157, which is now included in ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a new framework for measuring fair value and expands related disclosures. The fair-value disclosures for financial instruments are included in Note 4 and the fair-value disclosures related to the fair values of assets and liabilities from business combinations completed during 2009 are included in Note 2.

On January 1, 2009, the Company adopted SFAS No. 141(R), *Business Combinations*, which is now included in ASC Topic 805, *Business Combinations*. SFAS No. 141(R) significantly changes the accounting for business combinations for which the acquisition date is on or after January 1, 2009, both during the period of acquisition and in subsequent periods. Among the more significant changes in the accounting for acquisitions are the following:

- An acquiring entity must recognize all the assets acquired and liabilities assumed in a business combination at the acquisition-date fair value, as determined under the provisions in ASC Topic 820;
- Transaction costs are expensed as incurred, and are classified within cash flows from operating activities in the consolidated statement of cash flows. Such costs were previously capitalized as part

of the cost of an acquisition, and were classified within cash flows from investing activities in the consolidated statement of cash flows;

- Contingent consideration is recognized at fair value at the acquisition date as a liability or as equity. Subsequent adjustments of an amount recognized as a liability are recognized in the statement of operations. Contingent consideration was previously accounted for as an adjustment to the cost of the acquisition when the results of the contingency were determined;
- Subsequent changes to valuation allowances against deferred tax assets after the measurement period are recognized as an adjustment to income tax expense. Such changes were previously reflected as an adjustment to goodwill. This provision of SFAS No. 141(R) also applies to acquisitions completed prior to the effective date;
- Acquired in-process research and development (“IPR&D”) is recognized as an asset at fair value at the acquisition date, with the fair value recognized as an expense as the asset is realized or abandoned. IPR&D was previously expensed at the acquisition date; and
- Costs associated with restructuring or exit activities of an acquired entity are expensed when incurred. Previously, such costs were recorded as liabilities at the acquisition date if specified criteria were met.

During 2009, the Company recognized net acquisition-related charges of \$7.2 million. These net charges were principally a result of the adoption of SFAS No. 141(R), including transaction costs, and the accretion of an earn-out liability related to one of the Company’s recent acquisitions recorded at estimated fair value on a discounted basis. These net charges also included a charge related to an increase in the estimated fair value of the earn-out liability in 2009 reflecting 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 settle the 2010 earn-out provisions. These charges are included within acquisition-related items in the consolidated statement of operations. In addition, the net charges recorded during 2009 include costs incurred as of December 31, 2008, related to potential acquisitions that did not have an acquisition date on or prior to December 31, 2008, that were included as an asset on the consolidated balance sheet as of that date as required by the provisions of SFAS No. 141, *Business Combinations*, the predecessor to SFAS No. 141(R). Acquisition-related charges of \$3.1 million were paid during 2009 and were included as a reduction of cash provided by operating activities in the consolidated statement of cash flows.

In the second quarter of 2009, the Company adopted SFAS No. 165, *Subsequent Events*, which is now included in ASC Topic 855, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Since this standard only formalizes existing GAAP, the adoption of this pronouncement did not have a material impact on the Company’s 2009 consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-05, *Fair Value Measurements and Disclosures - Measuring Liabilities at Fair Value*. ASU 2009-05 updates the guidance on measuring the fair value of liabilities and provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1) a valuation technique that uses a quoted price of an identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets; 2) a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer an identical liability; or 3) a technique based on the amount a reporting entity would receive to enter into an identical liability. ASU 2009-05 also clarifies that both a quoted price in an active market for an identical liability at the measurement date and a quoted price for the identical liability when traded as an asset in an

active market when no adjustments to the quoted price of the asset are required are level 1 fair value measurements. ASU 2009-05 is effective for the Company in the fourth quarter of 2009. The adoption of ASU 2009-05 did not have a material impact on the Company's 2009 consolidated financial statements.

— *Recently Issued Pronouncements Not Yet Adopted*

In October 2009 the FASB issued two accounting standards updates that could result in revenue being recognized earlier in certain revenue arrangements with multiple deliverables. Both updates are effective for the Company in the first quarter of 2011. Early adoption is permitted. If the Company adopts this standard in a period other than the beginning of its fiscal year, the Company will be required to apply this standard retrospectively to beginning of its fiscal year, and disclose certain financial information as revised for all interim periods previously reported in the fiscal year adopted. The Company is evaluating when to adopt the updates and the effect the adoption will have on its 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 2010-6, *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. The Company does not expect that the adoption of ASU 2010-06 will have a material impact on its consolidated financial statements.

(2) BUSINESS COMBINATIONS

The Company has expanded its technology base by acquiring various companies or their assets.

During 2009, the Company completed the acquisitions of two businesses that expanded its technology base. The Company completed the acquisition of all of the equity interest in Formation, Inc. ("Formation"), of

Moorestown, New Jersey, and Satamatics Global Limited (“Satamatics”), of Tewkesbury, UK, on January 9, 2009 and February 13, 2009, respectively.

Formation’s core product lines are rugged disk data storage products, wireless access points, advanced integrated recorders, terminal data loaders, and avionics and media file servers. Acquiring Formation is part of the Company’s continued investment in its aero-connectivity strategy to become a more comprehensive solutions provider. The Company’s goal is to meet the growing demand for aeronautical communications from airlines and business aircraft owners, as well as governments. With the inclusion of Formation in its product portfolio, the Company covers the spectrum of air-connectivity solutions for those markets across multiple satellite platforms.

Satamatics’ core products include satellite data communications terminals for mobile asset tracking and monitoring, and related airtime services. This acquisition complements the Company’s existing Iridium- and Inmarsat-based tracking solutions, extends the Company’s satellite capabilities into a new market, and further strengthens the Company’s market position in satellite-based applications for tracking people and assets worldwide.

As discussed in Note 1 to the consolidated financial statements, the Company was required to adopt SFAS No. 141(R), which is now included in ASC Topic 805, effective January 1, 2009, and these acquisitions were reflected in the consolidated financial statements in accordance with these revised standards.

The aggregate cash purchase price for these two entities was approximately \$90.7 million paid in 2009. In addition, one of the purchase agreements included a contingent consideration arrangement. That contingency has since been settled, and an additional \$13.7 million is due to the sellers and payable in cash in 2010. Management estimated that the fair value of the contingent consideration arrangement at the acquisition date was approximately \$10.5 million. This was determined by applying a form of the income approach, based on the probability-weighted projected payment amounts discounted to present value at a rate appropriate for the risk of achieving the milestones. The key assumptions were the earn-out period payment probabilities, and an appropriate discount rate. These assumptions are considered by ASC Topic 820 to be level 3 inputs, which are not observable in the market. Including the contingent consideration as originally estimated, the aggregate estimated fair value of the consideration for these two entities, as of the respective acquisition dates, was approximately \$101.2 million. As discussed in Note 1, the estimated fair value of the earn-out liability was increased during 2009 with a net charge to earnings from continuing operations in the consolidated statement of operations.

Of the total cash consideration, approximately \$10.2 million is in escrow accounts payable to the sellers after specified periods, subject to claims against the sellers. Of this amount, approximately \$4.8 million is in accounts in the name of the Company; therefore, this portion is reflected as restricted cash and included in other current assets in the consolidated balance sheet as of December 31, 2009, with a corresponding liability in other current liabilities.

ASC Topic 805 requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. Certain adjustments to estimated fair value were recorded in 2009 based on new information obtained that existed as of the acquisition dates. These adjustments are detailed in the table below. ASC Topic 805 requires that such adjustments to provisional amounts be reflected in comparative financial information presented in the financial statements on a retrospective basis. These adjustments, however, would not have resulted in a material change to the statement of operations for the periods presented, and therefore retrospective application was not applied.

The fair values of major classes of assets acquired and liabilities assumed as originally determined and revised as of December 31, 2009, including a reconciliation to the total consideration, is as follows (in millions):

	Acquisition Date Fair Value Measurements		
	As of April 4, 2009	Measurement Period Adjustments	As of December 31, 2009
Cash	\$ 5.0	-	5.0
Receivables	4.7	-	4.7
Inventories	10.4	(0.1)	10.3
Developed technology	21.2	2.1	23.3
Customer relationships	11.8	3.7	15.5
Other identifiable intangible assets	8.2	(0.6)	7.6
Other assets	4.1	0.7	4.8
Payables and accrued expenses	(8.5)	(0.3)	(8.8)
Deferred tax liabilities	(9.9)	1.2	(8.7)
	<u>47.0</u>	<u>6.7</u>	<u>53.7</u>
Goodwill	<u>54.2</u>	<u>(6.7)</u>	<u>47.5</u>
	<u>\$ 101.2</u>	<u>-</u>	<u>101.2</u>

The accounting for these acquisitions is substantially complete as of December 31, 2009, with the primary resolution being the potential finalization of deferred taxes in the first quarter of 2010. The valuation methods and assumptions used to determine fair value of major classes of assets acquired and liabilities assumed in accordance with ASC Topic 820 are as follows:

- *Cash and cash equivalents, trade accounts receivable, accounts payable and accrued expenses* – The carrying amounts of each of these items approximated fair value because of the short-term maturity of these instruments.
- *Inventories* were valued on the basis of estimated selling prices less the sum of (a) costs of disposal and (b) reasonable profit allowances on the selling effort. The inventory values were established separately for raw materials, work-in-process, and finished goods. The fair value of materials was based on the carrying amounts at current replacement cost. The fair value of work-in-process and finished goods was determined so that the Company would not generate a profit on the ultimate disposition of the acquired inventory based on value added in the manufacturing process prior to the acquisition date.
- *Property, plant and equipment assets* (included in the other assets category above) were valued based on a cost and market approach. The cost approach quantifies value by examining either the historical cost to reproduce it or the estimated current cost to replace it at a given level of functionality and estimated physical deterioration. A physical deterioration factor was considered for the loss in value brought about by wear and tear of the elements, disintegration, use in service, and all physical factors that reduce the life and serviceability of the property. An obsolescence factor was considered to adjust for the economic and functional obsolescence created by the passage of time. The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Once the cost and market approaches were completed, an analysis of the overall validity of each approach was performed based on the resources used to arrive at a fair value of each asset.
- *Developed technology assets* can be defined as proprietary knowledge or processes that have been developed or purchased and are recognized as providing or having the potential to provide, significant competitive advantages or product differentiation. A developed technology intangible asset can be identified as the end product, such as in high-tech companies, or can be an internally developed system or software package that enhances the process of producing other products, delivering a

service, or facilitates general business management. The developed technology acquired is inclusive of patented technology, proprietary software and trade secrets. For a portion of the developed technology acquired, a variation of the income approach known as the excess earnings method was used to value this developed technology. The income approach measures the future economic income that can be attributed to the developed technology based on its expected remaining useful life. The excess earnings method requires an analysis of the following two key inputs: 1) the average remaining useful lives of the developed technologies, and 2) the debt-free net cash flow expected to be generated by the developed technology over its average remaining useful life after deducting charges for contributory assets. Key assumptions and inputs used to develop the debt-free cash flow for developed technologies were projected revenue growth, the average remaining useful life and decay curve, the base earnings before income tax, depreciation, and amortization (“EBITDA”) margin, an adjustment to account for the R&D expenses related to maintenance of the existing developed technology, an estimated income tax rate, required return for the use of other contributory assets, an appropriate discount rate, and the incremental value of the tax savings generated by the amortization of intangible assets. The Relief from Royalty (“RFR”) method under the income approach was used to value the remaining portion of the developed technology acquired. This approach provides an estimate of the value of the developed technology based on the present value of the projected cost savings attributable to the ownership of the developed technology. This method is based on the theory that the owner of the developed technology is relieved of paying a royalty for license fee for the use of the developed technology. The method is a function of: 1) projected sales from products or services attributable to the developed technology, 2) a reasonable market royalty rate that would otherwise be charged to a licensor of the developed technology to a licensee of the developed technology, and 3) an appropriate discount rate to reflect the risk of achieving the projected royalty savings attributable to the developed technology. Key assumptions and inputs used to develop the debt-free cash flow for developed technologies value using the RFR method were projected revenue growth, the average remaining useful life and decay curve, a royalty rate, an estimated income tax rate and an appropriate discount rate.

- *A customer relationship* exists between an entity and its customer if the following conditions are met: 1) the entity has information about the customer and has regular contact with the customer; and 2) the customer has the ability to make direct contact with the entity. Relationships may arise from contracts, such as supplier contracts and service contracts. However, customer relationships may arise through means other than contracts, such as through regular contact by sales or service representatives. The income approach known as the excess earnings method was used to value customer relationships. The income approach measures the future economic income that can be attributed to the customer relationships based on their expected remaining useful lives. The income approach requires an analysis of the following two key inputs: 1) the remaining useful lives of the customer relationships, considering current contracted terms and renewal probabilities based on historical customer attrition analysis; and 2) the debt-free net cash flow expected to be generated by the customer relationships over their remaining useful lives. Key assumptions and inputs used to develop the debt-free cash flow for developed technologies were projected revenue growth, the average remaining useful life and decay curve, the base EBITDA margin, a sales and marketing adjustment to account for expenses related to attracting new customers, an estimated income tax rate, required return for the use of other contributory assets, and an appropriate discount rate.
- *The other identifiable intangible assets* include trade names and trademarks, order backlog, non-compete agreements, and in-process research and development assets, the most significant of which are the trade names and trademarks. Trade names and trademarks are developed through years of advertising, consistent packaging, promotional campaigns, and customer satisfaction. A recognized trade name or trademark leads to a positive pre-existing disposition on the part of potential purchasers toward purchasing goods and services. A trade name is the name of a business, association or other organization used to identify it. Trade names and trademarks have three basic values to an owner. First is the publicizing value, which is the impact on a customer, a retailer or an industrial

user, based on exposure, advertising, etc. Second is the educational value, implying product attributes, etc. Third is the psychological or heritage value, which implies comfort and induces sales. The RFR method under the income approach was used to estimate the value of the acquired trade names and trademarks. The key assumptions and inputs used are listed above under *developed technology assets*.

- *Deferred tax assets and liabilities* were determined in accordance with ASC Topic 740, *Income Taxes*. Since both of these business combinations were nontaxable transactions, the assets are not adjusted to fair value for income tax reporting purposes. Therefore, deferred tax liabilities are reflected for the tax effects of the difference in bases for financial reporting and income tax purposes that result from applying the acquisition method of accounting for financial reporting purposes.

Identifiable intangible assets of \$46.1 million are subject to amortization over a weighted-average amortization period, of 9.1 years in total, and for the major classes: 7.5 years for developed technology, 12.3 years for customer relationships and 10.0 years for trade names and trademarks. In-process research and development assets of \$0.3 million are not subject to amortization until the projects are complete or abandoned. The Company did not incur costs to renew or extend the term of acquired intangible assets during the period ended December 31, 2009.

The goodwill results from the application of ASC Topic 805 since it requires that the acquirer subsume into goodwill the value of any acquired intangible asset that is not identifiable and the value attributed to items that do not qualify for separate recognition as assets at the acquisition date. The revised standard on accounting for business combinations prohibits separate recognition for certain acquired intangible assets that do not arise from contractual or other legal rights or do not meet specified separation criteria (e.g., assembled workforce). In addition, value is attributed by management to certain items that do not qualify as assets at the acquisition date, such as future technologies that management expects to be developed based on a track record of the acquired entities meeting market demands. Management also believes that synergies exist between these newly acquired product lines and the Company's existing aero and connectivity businesses that allow the opportunity for promising growth. The goodwill was assigned to the Communications & Tracking reporting segment and is not deductible for income tax purposes. The assignment of goodwill to reporting units has been completed and assigned to the Formation and Satamatics reporting units.

The Company included the operating results of Formation and Satamatics in the Communications & Tracking segment in the consolidated statement of operations since the acquisition date for each respective entity. The results for 2009 included net sales of \$60.2 million and a loss from continuing operations before taxes of \$0.2 million. During 2009, the Company recognized net acquisition-related charges of \$7.2 million. These net charges were principally a result of the adoption of SFAS No. 141(R), including transaction costs, and a net charge related to an increase in the earn-out liability. Also 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 the Company funded the transaction to the date the acquisition was completed.

The following table provides unaudited supplemental pro forma information of the Company for 2009 and as if these acquisitions had been completed on January 1 of the respective years. The results were prepared based on the historical financial statements of the Company and the acquired entities and include pro forma adjustments to reflect the effects of the transactions and the provisions of SFAS No. 141(R) as if it had been in effect at these hypothetical acquisition dates (in thousands):

	<u>Years Ended</u>	
	<u>December 31 2009</u>	<u>December 31 2008</u>
Net sales	\$ 362,970	383,584
(Loss) earnings from continuing operations	(19,475)	6,397

During 2008, the Company completed acquisitions of two entities. Akerstroms Trux AB ("Trux") of Bjorbo, Sweden was acquired on February 8, 2008, and Sky Connect, LLC ("Sky Connect") of Takoma Park, MD was

acquired on August 15, 2008. Trux manufactures and markets vehicle-mount computing solutions for warehousing and production environments in the Nordic region, and Sky Connect is a leading provider of Iridium-based combined tracking and voice systems for the aviation market.

The aggregate purchase price for the entities acquired in 2008 was approximately \$33 million. The cost of the acquired entities was allocated based on the fair value of the underlying assets and liabilities, which included identifiable intangible assets of approximately \$8.4 million. Intangible assets are subject to amortization based on expected useful lives that range from three to five years. Goodwill, totaling approximately \$22.4 million, represented the excess of the cost over the net of the amounts allocated to the assets acquired and liabilities assumed. Approximately \$11.0 million of the acquired goodwill is deductible over a 15-year period for income tax purposes.

Sky Connect is included in the Company's Communications & Tracking reportable operating segment, and Trux is included in the Company's LXE reportable operating segment. Their operating results are being included in the Company's results of operations from their respective dates of acquisition. The Company recognized a loss on impairment of goodwill of \$19.9 million in 2009 at the LXE reporting unit (see Note 3 for additional information). A proportional share of the loss was allocated to the goodwill resulting from the acquisition of Trux.

Pro forma financial statements and information have not been included for either of the 2008 acquisitions since they are not considered significant acquisitions individually or in aggregate in relation to the Company's consolidated financial statements.

(3) GOODWILL AND OTHER INTANGIBLE ASSETS

As discussed in Note 2, the Company completed two business combinations during 2009, and two during 2008. The consolidated financial statements include the identifiable intangible assets and goodwill resulting from these business combinations in addition to amounts from acquisitions of businesses completed prior to 2008.

The following table presents the changes in the carrying amount of goodwill during 2008 and 2009 (in thousands):

	<u>Communication & Tracking</u>	<u>LXE</u>	<u>Total</u>
Balance as of December 31, 2007	\$ -	9,982	9,982
Goodwill acquired during year	11,007	12,395	23,402
Foreign currency translation adjustment	-	(1,982)	(1,982)
Balance as of December 31, 2008	11,007	20,395	31,402
Goodwill acquired during year	47,530	-	47,530
Foreign currency translation adjustment	-	1,295	1,295
Impairment loss	-	(19,891)	(19,891)
Balance as of December 31, 2009	<u>\$ 58,537</u>	<u>1,799</u>	<u>60,336</u>

The Company has four reporting units with goodwill from prior acquisitions reported on the balance sheet at December 31, 2009. In completing the annual evaluation for impairment in the fourth quarter of 2009, the estimated fair value of three of the Company's four reporting units with goodwill exceeded the carrying amount. The amount of goodwill for each reporting unit that passed step one 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):

	<u>Reported Goodwill</u>	<u>Estimated Fair Value in Excess of Carrying Amount</u>
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 fair value. Therefore, a significant excess would not be expected for a recently acquired reporting unit.

For the Company's LXE reporting unit, the estimated fair value did not exceed the carrying amount. Therefore, the Company 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 amount by which the goodwill on LXE's balance sheet exceeded the implied fair value. 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 reported 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 under U.S. GAAP a step up in fair value for these other assets is not permitted. The impairment loss on goodwill of \$19.9 million was recorded at our LXE segment in the fourth quarter of 2009 and represented 93% of the carrying amount of goodwill for this reporting unit.

The Company estimated the fair value of each of its reporting units in a manner similar to the method used in a business combination. The Company utilized both the income approach and the market approach present value techniques in the determination of fair value. Under the income approach, estimated fair value is based on the discounted cash flow method. The key assumptions that drive the estimated fair value of the reporting units under the income approach are level 3 inputs and include future cash flows from operations and the discount rate applied to those future cash flows, determined from a weighted-average cost of capital calculation. The future cash flows include additional key assumptions relating to revenue growth rates, margins and costs. Under the market approach, the value of invested capital is derived through industry multiples and other assumptions. The key assumptions that drive the estimated fair value of the reporting units under the market approach include EBITDA and revenue multiples using guideline companies, the majority of which are level 3 inputs.

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.

There were no accumulated impairment losses for the Company's goodwill as of December 31, 2008. After the impairment loss recorded on LXE's goodwill in 2009, the Company had \$19.5 million of accumulated impairment losses on goodwill including foreign currency translation adjustments as of December 31, 2009.

The following table presents the gross carrying amounts and accumulated amortization, in total and by major intangible asset class, for the Company's intangible assets subject to amortization as of December 31, 2009 and December 31, 2008 (in thousands):

	As of December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	\$ 40,385	13,460	26,925
Customer relationships	19,052	2,493	16,559
Trade names and trademarks	6,208	1,052	5,156
Other	2,428	1,812	616
	<u>\$ 68,073</u>	<u>18,817</u>	<u>49,256</u>

	As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	\$ 15,002	7,621	7,381
Customer relationships	3,405	351	3,054
Trade names and trademarks	830	217	613
Other	148	30	118
	<u>\$ 19,385</u>	<u>8,219</u>	<u>11,166</u>

Amortization expense related to these intangible assets for 2009 and 2008 was \$9.4 million and \$2.2 million, respectively. Amortization expense of \$5.5 million and \$0.4 million was included in cost of sales, \$3.6 million and \$1.6 million was included in selling, general and administrative expenses, and \$0.2 million and \$0.2 million was included in research and development expenses in the Company's consolidated statements of operations for 2009 and 2008, respectively. Expected amortization expense for the five succeeding years is as follows: 2010 - \$8.2 million, 2011 - \$7.6 million, 2012 - \$7.8 million, 2013 - \$7.1 million, and 2014 - \$3.8 million.

In-process research and development assets of \$0.3 million are not subject to amortization until the projects are complete or abandoned.

(4) FAIR VALUE MEASUREMENTS

The Company adopted ASC Topic 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities on January 1, 2008, and for nonfinancial 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The carrying amounts of cash and cash equivalents, trade accounts receivable, accounts payable and accrued expenses approximate their fair values because of the short-term maturity of these instruments.

The Company uses derivative financial instruments, primarily in the form of foreign currency forward contracts, in order to mitigate the risks associated with currency fluctuations on future fair values of foreign denominated assets and liabilities. The Company's policy is to execute such instruments with creditworthy financial institutions, and it does not enter into derivative contracts for speculative purposes. The fair values of foreign currency contracts of \$39,000 net asset at December 31, 2009 and \$1.2 million net liability at December 31, 2008 are based on quoted market prices for similar instruments using the income approach (a level 2 input per the provisions of ASC Topic 820) and are recorded in other current liabilities in the Company's consolidated balance sheets.

The Company has two fixed-rate, long-term mortgages and has borrowings under its revolving credit facility. One mortgage has an 8.0% rate and a carrying amount as of December 31, 2009 and December 31, 2008 of \$6.4 million and \$7.1 million, respectively. The other mortgage has a 7.1% rate and a carrying amount as of December 31, 2009 and December 31, 2008 of \$2.9 million and \$3.5 million, respectively. The Company's borrowings under its revolving credit facility were \$18.5 million as of December 31, 2009. The Company did not have any borrowings under its revolving credit facility as of December 31, 2008. The estimated fair value of the Company's total debt was \$26.5 million at December 31, 2009 and is based on quoted market prices for similar instruments (a level 2 input). Mortgage debt and borrowings under the Company's credit facility are recorded in current and long-term debt on the Company's consolidated balance sheets.

Management believes that these assets and liabilities can be liquidated without restriction.

The Company had a contingent consideration liability for earn-out provisions resulting from an acquisition completed in the first quarter of 2009 (Refer to Note 1 for additional information). The contingency has since been settled and \$13.7 million is due to the sellers, payable in cash in 2010. This liability is recorded in current liabilities on the Company's consolidated balance sheet as of December 31, 2009. Prior to the amendment to fix the amount of the payment the estimated fair value of this contingent consideration liability was determined by applying a form of the income approach (a level 3 input) based on the probability-weighted projected payment amounts discounted to present value at a rate appropriate for the risk of achieving the milestones.

The table below includes a summary of the change in estimated fair value of the contingent consideration liability (in thousands):

	Year Ended December 31, 2009
Balance at the beginning of the period	\$ -
Acquisitions	10,500
Fair value adjustment, including accretion	3,229
Balance at the end of the period	<u>\$ 13,729</u>

During 2009, the fair value adjustment was an increase of \$3.2 million reflecting changes in its expected payments based on the results of 2009, and an agreement to settle the 2010 earn-out amount. This fair value adjustment was included in acquisition-related items in the consolidated statements of operations.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis Subsequent to the Initial Recognition

In accordance with the provisions of ASC Topic 350, goodwill for our LXE segment with a carrying amount of \$21.7 million was written down to its implied fair value of \$1.8 million, resulting in an impairment charge of \$19.9 million, which was included in loss from continuing operations for 2009. The estimated fair value used in the Company's impairment testing evaluation was determined by applying the income approach and

market approach, both level 3 inputs. Refer to Note 3 for additional information including the valuation techniques used in the Company's goodwill impairment evaluation.

ASC Topic 805 requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination completed on or after January 1, 2009. The Company completed two acquisitions in 2009. Refer to Note 2 for additional information on the estimated fair values of, and the valuation techniques used, for the assets acquired and the liabilities in these two acquisitions.

(5) BUSINESS SEGMENT AND GEOGRAPHIC AREA INFORMATION

Through December 31, 2009, the Company was organized into three reportable segments: Communications & Tracking, LXE, and Defense & Space ("D&S"). The Communications & Tracking segment includes the product lines previously reported in the Satellite Communications segment, and the newly acquired Formation, and Satamatics businesses. (Refer to Note 2 of the Company's consolidated financial statements for additional information on these recent acquisitions.) The Company determines operating segments in accordance with the Company's internal management structure, which is organized based on products and services that share distinct operating characteristics. Each segment is separately managed and is evaluated primarily upon operating income.

The Communications & Tracking segment offers satellite-based communications, tracking, and messaging solutions through a broad array of terminals and antennas for the aeronautical, ground-mobile and emergency management markets. The manufacturing cycle for each order is generally just a few days, and revenues are recognized upon shipment of hardware. Product and services are marketed to a variety of customers including major airframe manufacturers, avionics original equipment manufacturers ("OEM"), aircraft operators and owners. Communications & Tracking also derives a portion of its net sales from performance on long-term development contracts. Net sales on these contracts are generally accounted for using percentage-of-completion accounting.

The LXE segment manufactures mobile terminals and wireless data collection equipment for logistics management systems. The manufacturing cycle for each order is generally just a few days, and generally revenues are recognized upon shipment of product. Products are marketed directly to end-users, through distributors, and integrators (such as value-added resellers who provide inventory management software) that incorporate it with their products and services for sale and delivery to end users. 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.

The D&S segment manufactures custom-designed, highly engineered subsystems for use in space, airborne, and terrestrial applications for communications, radar, surveillance, precision tracking and electronic counter-measures. Orders typically involve development and production schedules that can extend a year or more, and most revenues are recognized under the percentage-of-completion long-term contract accounting method. Products are typically sold to prime contractors or systems integrators rather than to end-users.

Accounting policies for segments are the same as those described in the summary of significant accounting policies.

The following segment data is presented in thousands:

	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>
Operating (loss) income:			
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>
Interest income, net of foreign exchange losses:			
Communications & Tracking	\$ 826	(154)	(564)
LXE	(84)	500	236
Defense & Space	1	6	7
Corporate & Other	(1,344)	1,492	4,334
Total	<u>\$ (601)</u>	<u>1,844</u>	<u>4,013</u>
Interest expense:			
Communications & Tracking	\$ 68	62	121
LXE	93	406	348
Defense & Space	-	40	141
Corporate & Other	2,020	1,171	1,343
Total	<u>\$ 2,181</u>	<u>1,679</u>	<u>1,953</u>
(Loss) earnings from continuing operations before income taxes:			
Communications & Tracking	\$ 12,141	13,971	11,504
LXE	(26,708)	2,955	6,955
Defense & Space	7,315	6,347	4,742
Corporate & Other	(10,163)	(3,484)	(1,874)
Total	<u>\$ (17,415)</u>	<u>19,789</u>	<u>21,327</u>

The results from continuing operations before income taxes for Corporate & Other for the year ended December 31, 2009 include a net charge of \$7.2 million for acquisition-related items, and other corporate expenses that are not allocated to operating segments in the financial data reviewed by the chief operating decision maker. The acquisition-related items were principally a result of the adoption of SFAS No. 141(R), including transaction costs, and the accretion of an earn-out liability related to one of the Company's recent acquisitions recorded at estimated fair value on a discounted basis an increase in the estimated fair value of the earn-out liability in 2009 reflecting 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 settle the 2010 earn-out provisions. In addition, the results from continuing operations before income taxes for 2009 includes a \$1.4 million foreign exchange loss related to the funding of the Satamatics acquisition.

The results from continuing operations before income taxes for LXE include an impairment loss on goodwill of \$19.9 million for the year ended December 31, 2009. The Company completed its annual evaluation for goodwill impairment in the fourth quarter of 2009 and determined that the amount of goodwill recorded in

connection with the LXE segment was impaired, as the current performance and future expectations do not support the carrying amount of its goodwill.

	Years Ended December 31		
	2009	2008	2007
Capital expenditures:			
Communications & Tracking	\$ 3,076	4,385	6,589
LXE	3,726	2,957	3,364
Defense & Space	5,966	6,105	3,684
Corporate & Other	665	422	942
Total	<u>\$ 13,433</u>	<u>13,869</u>	<u>14,579</u>
Depreciation and amortization:			
Communications & Tracking	\$ 12,117	5,089	3,619
LXE	3,345	3,363	2,205
Defense & Space	3,367	3,023	2,620
Corporate & Other	1,160	1,023	1,222
Total	<u>\$ 19,989</u>	<u>12,498</u>	<u>9,666</u>

	December 31	
	2009	2008
Assets:		
Communications & Tracking	\$ 220,405	99,323
LXE	71,632	107,230
Defense & Space	53,883	47,417
Corporate & Other	28,225	73,395
Total	<u>\$ 374,145</u>	<u>327,365</u>

Following is a summary of enterprise-wide information (in thousands):

	Years Ended December 31		
	2009	2008	2007
Net sales to customers in the following countries:			
United States	\$ 252,749	202,520	176,209
Other foreign countries	107,223	132,525	111,670
Total	<u>\$ 359,972</u>	<u>335,045</u>	<u>287,879</u>

Net sales are attributed to individual countries based on the customer's country of origin at the time of the sale.

	December 31	
	2009	2008
Long-lived assets (excluding goodwill) are located in the following countries:		
United States	\$ 54,372	32,831
United Kingdom	24,442	2,050
Canada	8,820	7,609
Other foreign countries	9,562	9,248
Total	<u>\$ 97,196</u>	<u>51,738</u>
Concentration of net assets by geographic region:		
United States	\$ 72,826	128,692
Canada	62,239	53,252
Europe	97,216	53,801
Other	4,810	6,997
Total	<u>\$ 237,091</u>	<u>242,742</u>

Sales to no individual customer exceeded more than 10% of our annual net sales during any of the years ended December 31, 2008 or 2007. Sales to one of our customers during the year ended December 31, 2009 exceeded 10% of our annual net sales, with sales of \$37.9 million, mainly due to a significant order received by our D&S segment that is not expected to reoccur.

(6) INVENTORIES

Inventories as of December 31, 2009 and 2008 included the following (in thousands):

	December 31	
	2009	2008
Parts and materials	\$ 25,221	26,730
Work-in-process	5,142	2,404
Finished goods	10,292	6,536
	<u>\$ 40,655</u>	<u>35,670</u>

Costs included in inventories related to long-term programs or contracts are primarily for materials and work performed on programs awaiting funding, or on contracts not yet finalized. Such costs were \$1.1 million at December 31, 2009, and \$1.6 million at December 31, 2008.