## (7) LONG-TERM DEBT

The following is a summary of long-term debt as of December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Revolving credit loan with a syndicate of banks in the U. S., which matures in February 2013, interest payable monthly at a variable rate (3.75% at the end of 2009) | $ 18,500 | -- |
| Promissory note, secured by a first mortgage on the Company's headquarters facility, maturing in 2016, principal and interest payable in equal monthly installments of $104 with a fixed interest rate of 8.0% | 6,370 | 7,076 |
| Term loan with an insurance company, secured by a U.S. building, maturing in February 2014, principal and interest payable in equal monthly installments of $68 with a fixed interest rate of 7.1% | 2,878 | 3,466 |
| Capital lease agreements, secured by machinery and equipment, computer hardware, software and peripherals, with various terms through 2010, due in quarterly installments with implicit interest rates of 3.0% to 4.2% | 2 | 10 |
| Total long-term debt | 27,750 | 10,552 |
| Less current installments of long-term debt | 1,398 | 1,302 |
| Long-term debt, excluding current installments | $ 26,352 | 9,250 |

The Company has a revolving credit agreement with a syndicate of banks. Under this agreement, the Company has $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 until maturity. The credit agreement is secured by substantially all of the Company's tangible and intangible assets, with certain exceptions for real estate that secures existing mortgages, for other permitted liens, and for certain assets in foreign countries.

Interest will be, at the Company's option, a function of either the lead bank's prime rate or the then-published London Interbank Offered Rate ("LIBOR") for the applicable borrowing period. A commitment fee equal to 0.30% per annum of the average daily unused credit is payable quarterly. As of December 31, 2009, the Company had $18.5 million of borrowings outstanding under this revolving credit facility.

The credit agreement includes a financial covenant that establishes a maximum ratio of total funded debt to historical consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA"). The credit agreement also establishes a minimum ratio of consolidated EBITDA less capital expenditures and taxes paid to specific fixed charges, primarily interest, scheduled principal payments under all debt agreements and dividends. The credit agreement includes various other covenants that are customary in such borrowings. The agreement also restricts the ability of the Company to declare or pay cash dividends.

The Company has $2.5 million of standby letters of credit 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 should the Company fail to meet certain contractual requirements. After deducting outstanding letters of credit, as of December 31, 2009, the Company had $41.5 million available for borrowing in the U.S. and $12.5 million available for borrowing in Canada under the revolving credit agreement.

Following is a summary of the combined principal maturities of all long-term debt (in thousands) as of December 31, 2009:

| | |
|---|---|
| 2010 | $ 1,398 |
| 2011 | 1,434 |
| 2012 | 1,618 |
| 2013 | 20,245 |
| 2014 | 1,114 |
| Thereafter | 1,941 |
| Total principal maturities | $ 27,750 |

Included in these totals are principal payments to be made under the Company's capital lease agreements.

**8) STOCK-BASED COMPENSATION**

The Company has granted nonqualified stock options and nonvested restricted stock to key employees and directors under several stock option plans. All outstanding options have been granted with an exercise price equal to the fair market value of the stock on the grant date. The principal vesting requirement for all options granted prior to and after 2006 was satisfaction of a service condition. The vesting requirements for options granted in 2006 included service-based and performance-based conditions. Grants to executives are made from a shareholder-approved plan. Grants to non-executives are made from a plan that has not been subject to shareholder approval. As of December 31, 2009, there were options exercisable under all plans for approximately 789,000 shares of common stock, and there were approximately 1,833,000 shares available for future option grants. Upon exercise of an option, the Company's policy is to issue new shares.

The grants of restricted stock are valued on the date of grant at the intrinsic value of the underlying stock. Typically, the only restriction related to these grants is a service condition. 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. As of December 31, 2009, the Company had granted 124,000 nonvested shares to employees of which 25,000 shares vested in 2009, and 3,000 shares were forfeited.

The Company recognized charges to income of $2,470,000 in 2009, $2,339,000 in 2008, and $1,727,000 in 2007, before income tax benefit, for all the Company's stock plans. The Company also recognized related income tax benefits of $846,000, $955,000, and $758,000 for the same periods, respectively.

Following is a summary of options outstanding as of December 31, 2009 (shares in thousands):

| | Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
| $ 11.63 - 13.89 | 51 | $ 13.14 | | 51 | $ 13.14 | |
| 13.90 - 14.93 | 49 | 14.22 | | 49 | 14.22 | |
| 14.94 - 15.80 | 62 | 15.63 | | 62 | 15.63 | |
| 15.81 - 18.98 | 161 | 18.22 | | 142 | 18.23 | |
| 18.99 - 20.00 | 171 | 19.34 | | 127 | 19.27 | |
| 20.01 - 22.74 | 201 | 21.15 | | 178 | 21.04 | |
| 22.75 - 28.67 | 299 | 25.67 | | 180 | 25.97 | |
| $ 11.63 - 28.67 | 994 | $ 20.63 | 3.4 years | 789 | $ 20.02 | 3.1 years |

Options with service-based vesting only

The principal vesting requirement for all options granted prior to and after 2006 is a service condition that requires an employee to render service to the Company for a specified period of time. Vesting periods range from six months to four years, and substantially all of these options have graded vesting over these periods. Options provide for accelerated vesting if there is a change of control, as defined in the plans. All outstanding options expire from six to ten years after the date of grant.

Following is a summary of service-based option activity for 2009 (shares and aggregate intrinsic value in thousands):

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding at December 31, 2008 | 774 | $ 20.16 | | |
| Granted | 188 | 22.43 | | |
| Exercised | (48) | 13.80 | | |
| Forfeited or expired | (46) | 23.67 | | |
| Options outstanding at December 31, 2009 | 868 | 20.82 | 3.5 | $ 163 |
| Options exercisable at December 31, 2009 | 677 | 20.11 | 2.9 | 163 |

The fair value of each service-based option grant is estimated on the date of grant using the Black-Scholes option pricing model and the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's stock over a period equal to the expected term. The Company uses historical data to estimate option exercise and post-vesting termination behavior. 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. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Expected volitility | 47% | 45% - 46% | 53% - 59% |
| Expected term (in years) | 4.6 | 4.8 - 5.0 | 4.7 - 8.3 |
| Risk-free rate | 1.5% - 2.1% | 2.9% - 3.0% | 4.5% - 4.9% |
| Expected dividend yield | None | None | None |

The weighted-average grant-date fair value of service-based options granted in years 2009, 2008, and 2007 was $9.15, $12.02, and $9.98, respectively. The total intrinsic value for service-based options exercised during the years ended December 31, 2009, 2008 and 2007 was $370,000, $501,000 and $2,257,000, respectively.

As of December 31, 2009, there was $787,000 of total unrecognized compensation cost related to nonvested service-based options granted under the Company's plans. That cost is expected to be recognized over a weighted-average period of 2.3 years.

Options with performance-based and service-based vesting

In 2006, the Company issued options that included both performance-based and service-based vesting conditions. Each option became exercisable as to 25% of the shares beginning on the first anniversary of the grant and continuing on the subsequent three anniversaries, provided that the Company or, in the case of segment employees, the employee's principal segment during the year, has achieved, during the year preceding each vesting date, the earnings target specified by the Board's compensation committee at the beginning of each year. These performance-based options expire on the sixth anniversary of the date of grant. All other terms and conditions of these option grants are similar to options with service-based vesting only.

Following is a summary of option activity for options with both performance-based and service-based vesting conditions for 2009 (shares and aggregate intrinsic value in thousands):

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding at December 31, 2008 | 134 | $ 19.21 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Forfeited or expired | (8) | 18.05 | | |
| Options outstanding at December 31, 2009 | 126 | 19.28 | 2.3 | $ - |
| Options exercisable at December 31, 2009 | 112 | 19.44 | 2.3 | - |

The fair value of each performance-based and service-based option grant is estimated on the date of grant using the Black-Scholes option pricing model and the assumptions noted in the table below. The basis for each of the critical assumptions listed below is the same as those used to determine the fair value of the Company's service based option grants.

There were no options granted in 2009, 2008 or 2007 with both performance-based and service-based vesting conditions. There were no such options exercised during the year ended December 31, 2009. The total intrinsic value of such options exercised during the years ended December 31, 2008 and 2007 was $3,000, and $56,000, respectively.

The combined grant-date fair value of both service-based and performance and service-based grants vested during the years ended December 31, 2009, 2008, and 2007 was $2.2 million, $1.3 million, and $1.1 million, respectively. The Company received $0.5 million, $0.9 million, and $4.3 million from all share options exercised, net of withholding taxes, during 2009, 2008, and 2007, respectively.

Nonvested stock

Following is a summary of nonvested stock activity for 2009 (shares in thousands):

| | Number of Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested stock outstanding at December 31, 2008 | 55 | $ 24.99 |
| Granted | 44 | 18.86 |
| Vested | (25) | 23.03 |
| Forefeited | (3) | 28.00 |
| Nonvested stock outstanding at December 31, 2009 | 71 | $ 21.77 |

Nonvested stock valued at $72,000, $206,000, and $58,000 was granted to certain senior executives during 2009, 2008, and 2007, respectively, and $746,000 was granted to nonexecutive employees in 2009. The only restriction on the stock is the completion of specified service periods. As of December 31, 2009, there was $736,000 of total unrecognized compensation cost related to nonvested stock awards. That cost is expected to be recognized on a straight-line basis over a weighted-average two year service period.

## 9) INCOME TAXES

Total income tax benefit (expense) provided for in the Company's consolidated financial statements consists of the following for the years ended December 31, 2009, 2008, and 2007 (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Income tax benefit (expense), continuing operations | $ 4,266 | 682 | (2,080) |
| Income tax benefit, discontinued operations | 4,001 | - | 82 |
| Income tax benefit resulting from exercise of stock options credited to shareholders' equity | 133 | 203 | 643 |
| Total | $ 8,400 | 885 | (1,355) |

The components of income tax benefit (expense) for continuing operations for the years ended December 31, 2009, 2008 and 2007 were (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $ (42) | (1,460) | (1,483) |
| State | (128) | (176) | (332) |
| Foreign | (193) | (689) | (1,274) |
| Total | (363) | (2,325) | (3,089) |
| Deferred: | | | |
| Federal | 4,646 | 1,569 | 878 |
| State | 5 | 9 | 35 |
| Foreign | (22) | 1,429 | 96 |
| Total | 4,629 | 3,007 | 1,009 |
| Total income tax benefit (expense) | $ 4,266 | 682 | (2,080) |

Income tax benefit (expense) for continuing operations differed as follows from the amounts computed by applying the U.S. federal statutory income tax rate of 34% to loss (earnings) from continuing operations before income taxes for the years ended December 31, 2009, 2008, and 2007, respectively (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Benefit (expense) computed at the federal statutory rate Effect of: | $ 5,921 | (6,728) | (7,251) |
| State income taxes, net of federal income tax effects | (81) | (110) | (196) |
| Tax credits from research activities | 3,563 | 1,716 | 936 |
| Difference in effective foreign tax rates | 5,262 | 4,544 | 4,127 |
| Valuation allowance | (1,040) | 1,195 | 49 |
| Foreign permanent differences | (215) | (55) | (177) |
| Nondeductible goodwill impairment | (6,763) | — | — |
| Nondeductible acquisition-related items | (2,450) | — | — |
| Other | 69 | 120 | 432 |
| Income tax benefit (expense) | $ 4,266 | 682 | (2,080) |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2009 and 2008 are presented below (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Deferred tax assets: | | |
| Inventories | $ 1,353 | 602 |
| Accrued compensation costs | 2,499 | 769 |
| Accrued warranty costs | 1,278 | 779 |
| Foreign research expense and tax credit carryforwards | 40,241 | 33,721 |
| U.S. and foreign net operating loss carryforwards | 4,932 | 1,272 |
| Credit for corporate minimum tax | 709 | 408 |
| U.S. research and development credit carryforwards | 7,714 | 1,427 |
| Stock-based compensation | 2,283 | 1,594 |
| Other | 2,388 | 1,843 |
| Total gross deferred tax assets | 63,397 | 42,415 |
| Valuation allowance | (37,851) | (28,549) |
| | 25,546 | 13,866 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | 3,715 | 3,993 |
| Intangible Assets | 13,132 | - |
| Other | 729 | 923 |
| | 17,576 | 4,916 |
| Net deferred tax assets | $ 7,970 | 8,950 |

The net change in the valuation allowance for 2009, 2008 and 2007 was an increase of $9.3 million, a decrease of $20.5 million, and an increase of $16.2 million, respectively. The majority of the valuation allowance is necessary for the deferred tax assets in Canada, primarily the research expense and tax credit carryforwards. The Canadian increase in the valuation allowance in 2009 was attributable primarily to the effect of changes in foreign currency exchange rates ($4.3 million), revaluing the deferred tax asset to reflect future lower tax rates in the period the asset will be includable in taxable income ($3.5 million), generation of additional deferred tax assets ($5.1 million) and revision in estimate of prior year deferred tax assets ($7.4 million). These increases were partially offset by utilization of carryforwards with current period taxable income ($9.3 million) and revision in estimated utilization of deferred tax assets in the prior year ($4.9 million). The remaining increase in the valuation allowance in 2009 is due to business acquisitions and other jurisdictions with deferred tax assets for which realization is not more likely than not. The decrease in the valuation allowance in 2008 was attributable primarily to utilization of carryforwards with current period taxable income ($4.1 million), reduction of existing carryforwards as a result of revisions to amounts available ($5.9 million), the effect of changes in foreign currency exchange rates ($9.2 million) and a release of a portion of the beginning-of-the-year valuation allowance based on revisions to projected taxable income in the relatively near term ($1.3 million), supported by actual continuing profitability in the past several years. The increase in the valuation allowance in 2007 was attributable primarily to an increase in existing carryforwards as a result of revisions to amounts available ($8.2 million) and the effect of changes in foreign currency exchange rates ($5.8 million).

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible, or prior to expiration of carryforward items. Management considers the expected reversal of deferred tax liabilities, expected levels of future taxable income and tax planning strategies in making this assessment. Based on these considerations, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets, net of the existing valuation allowances as of December 31, 2009. In most jurisdictions, recent levels of earnings are sufficient to realize the benefits of the deferred tax assets, net of the valuation allowance, over a relatively short period of time. Due to the length of time until all of the deferred tax assets would be realized and the uncertainty that exists in the current global economy, no additional benefit was realized in Canada in 2009. The valuation allowance may be reduced further in the future resulting in an income tax benefit to future consolidated statements of operations if profitability expectations for the future increase or the certainty of such projections increases. The amount of deferred tax asset considered realizable, however, could be reduced in the future if estimates of future taxable income during the carryforward period are reduced.

The Company has Investment Tax Credit carryforwards in Canada with a 20-year expiration carryforward period. The net amount of the deferred tax benefit is $40.2 million with the majority of the amount offset by a valuation allowance. The specific carryforward periods for the Investment Tax Credits extend from years 2019 through 2029 from amounts generated from tax years 1999 through 2009. The Company has $13.7 million of net foreign operating loss carryforwards in multiple jurisdictions. Despite an unlimited expiration carryforward period, the Company has close to a full valuation allowance placed on these benefits as it is more likely than not that the attributes will not be utilized in the future. The Company has $1.5 million of net U.S. Federal operating loss carryforward as a result of an acquisition in 2009. The specific carryforward period of the U.S. Federal operating loss extends to 2029 from amounts generated in 2009. The Company also has net $7.7 million of U.S. research and development credits. The specific carryforward period of the U.S. research and development credits extends from years 2020 through 2029 from amounts generated from tax years 2000 through 2009. The Company has not placed a valuation allowance against these U.S. Federal and state benefits as it is more likely than not the attributes will be utilized in the future based on projected future taxable income net of reversal of deferred tax liabilities.

The U.S. operations are consolidated for federal income tax purposes. These U.S. operations had a loss from continuing operations before income taxes of $19.5 million in 2009. However, U.S. taxable income for income tax reporting is expected to be approximately $2.1 million primarily due to nondeductible amounts for the goodwill impairment loss and acquisition related items. The U.S. operation had earnings before income taxes of $4.5 million in 2008, and $5.7 million in 2007. The continuing combined foreign operations reported earnings before income taxes of $2.1 million, $15.3 million, and $15.6 million in 2009, 2008, and 2007, respectively. The loss for discontinued operations in 2009 was primarily within the U.S.

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 *Income Taxes*) on January 1, 2007. As a result of the adoption of ASC Subtopic 740-10, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. Upon adoption on January 1, 2007, the Company had $2.6 million of unrecognized tax benefits, as adjusted to $2.7 million to reflect the reclassification of amounts in discontinued operations and accrued interest on unrecognized benefits. As of December 31, 2009, the Company had $2.0 million of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized.

The following table summarizes the activity related to the Company's unrecognized tax benefits, excluding interest and penalties, for the years ended December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Balance as of January 1 | $ 2,949 | 2,591 |
| Increases related to current year tax positions | 917 | 194 |
| Increases related to prior year tax positions | 5 | 270 |
| Decreases related to lapsing of statute of limitations | (6) | (14) |
| Decreases related to settlements with taxing authorities | (1,915) | - |
| Changes in foreign currency exchange rate | 69 | (92) |
| Balance as of December 31 | $ 2,019 | 2,949 |

In the normal course of business, the Company is subject to audits from the federal, state, provincial and other tax authorities regarding various tax liabilities. The Company records refunds from audits when receipt is assured and records assessments when a loss is probable and estimable. These audits may alter the timing or amounts of taxable income or deductions, or the allocation of income among tax jurisdictions. The amount ultimately paid upon resolution of issues raised may differ from the amounts accrued. The Company is generally no longer subject to income tax examination by tax authorities for years before 2002.

The Company settled an audit by the Internal Revenue Service for the tax year 2006 in the third quarter 2009. The Company settled a Canada provincial audit for 2004 and 2005 in the fourth quarter 2009. The settlement of these audits resulted in a decrease in unrecognized tax benefits of $1.9 million as noted above. The Company also settled a Canada federal audit for the years 2002 through 2004 in the first quarter 2010. The settlement did not affect any amounts reflected in the consolidated financial statements as of December 31, 2009. The Company is still under audit in Canada at the federal level for years 2006 and 2007. The Company expects to complete the audits in the next twelve months. Any related unrecognized tax benefits could be adjusted based on the results of the audits. The Company cannot estimate the range of the change that is reasonably possible at this time.

**(10) DISCONTINUED OPERATIONS**

Prior to 2007, the Company disposed of its 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, the Company 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, the Company accrued a liability for the award costs in discontinued operations in the fourth quarter of 2009. The Company accrues 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, the Company 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. The Company is assessing its 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 conjunction with the sale of S&T/Montreal in 2005, an existing contractual requirement for the Company to post approximately $3 million to secure in-orbit incentive performance of the Radarsat-2 payload was eliminated, but the Company continues to warrant that amount in the event of specified in-orbit payload failures. Based upon the available information, management believes that the outcome for this particular contingency is not probable and cannot be estimated. As a result, the Company has not incurred any costs to date, and has not recorded a liability as of December 31, 2009, with respect to this contingency. The Company incurred no additional costs related to this disposition in 2009, 2008 or 2007.

The Company has 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. The Company and the purchaser have a corresponding sublicense agreement that granted the territory rights back to the purchaser, under which the Company is 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, the Company released the purchaser for this guarantee. Without the guarantee, the Company estimates that its portion of the satellite service revenues will be less than the acquisition cost, and the Company has accordingly reflected a liability for the net cost in its consolidated balance sheet. As of December 31, 2009, no payments have been made by the Company under this license agreement. The satellite service revenues from the specific market territory included under the sublicense agreement are considerably lower than expected. The Company believes 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. The Company believes that the net liability recorded in its consolidated balance sheet is its best estimate of the settlement amount. If a settlement is reached, it is expected to be paid in the following twelve months, and therefore the net liability is recorded as a current liability in the Company's consolidated balance sheet as of December 31, 2009.

In 2006, the Company completed the sale of its 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. The Company does not believe that these claims are valid according the terms of the APA and has filed an arbitration demand with the purchaser. Management believes 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.

The results of these discontinued operations for 2009, 2008 and 2007 were as follows (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Loss before income taxes | $ (10,917) | - | (585) |
| Income tax benefit | 4,001 | - | 82 |
| Loss from discontinued operations | $ (6,916) | - | (503) |

The Company's 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. In 2008, discontinued operations had no effect on the Company's net earnings. The Company's 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.

## (11) RETIREMENT PLANS

The Company established a qualified defined contribution plan in 1993. All U.S.-based employees that met a minimum service requirement were eligible to participate in the plan prior to 2008. In 2008, eligibility was reduced to employees who had more than 15 years of service and were at least 50 years of age at December 31, 2007. Approximately 450 employees were eligible to participate in the plan in 2009, 500 in 2008, and 650 in 2007. The Company contributions are allocated to each participant based upon an age-weighted formula that discounts an equivalent benefit (as a percentage of eligible compensation) at age 65 to each employee's current age. Accumulated contributions are invested at each participant's discretion from among a diverse range of investment options offered by an independent investment firm selected by the Company.

The Company's contribution to this plan is determined each year by the Board of Directors. There is no required minimum annual contribution, but the contribution for 2009 was approximately 1.8% of base payroll of eligible employees. The plan is scheduled to be terminated after 2015. Contributions after 2007 were at a lower level than in prior years and are further reduced for employees who had less than 15 years of service or were less than 50 years of age at December 31, 2007. The Company's total expense through continuing operations related to the defined contribution plan totaled $0.6 million in 2009, $1.1 million in 2008, and $2.4 million for 2007.

The Company sponsors qualified retirement savings plans in the U.S., Canada and the United Kingdom, in which the Company matches a portion of each eligible employee's contributions. The Company's matching contributions to these plans through continuing operations were $2.1 million in 2009, $2.5 million in 2008, and $1.9 million in 2007.

## (12) OTHER EQUITY MATTERS

On July 29, 2008, the Company's Board of Directors authorized a stock repurchase program for up to $20 million of the Company's common shares. The Company had repurchased 495,000 common shares for $10.1 million under this program as of December 31, 2009.

On July 27, 2009, the Company's Board of Directors adopted a Shareholder Rights Plan (the "Plan") to replace a similar plan adopted in 1999 that expired on August 6, 2009. Under the Plan, a dividend distribution of one right for each of the Company's outstanding common shares was made to shareholders of record at the close of business on August 7, 2009. Upon the occurrence of certain triggering events, as set forth in the Plan, the rights would become exercisable.

## (13) COMMITMENTS AND CONTINGENCIES

The Company is committed under several noncancelable operating leases for office space, computer and office equipment and automobiles. Minimum annual lease payments under such leases having initial or remaining terms in excess of one year are $5,160,000 in 2010, $4,468,000 in 2011, $3,813,000 in 2012, $3,099,000 in 2013, $2,531,000 in 2014 and $5,892,000 thereafter. The Company also has short-term leases for regional sales offices, equipment and automobiles. Total rent expense under all operating leases was approximately $5,377,000, $4,518,000, and $4,067,000 in 2009, 2008, and 2007, respectively.

The Company's Canadian-based SATCOM division has received cost-sharing assistance from the Government of Canada under several programs that support the development of new commercial technologies and products. This funding is repayable in the form of royalties, the level of which will depend upon future revenue earned by SATCOM above a certain threshold. These royalties accrue at rates generally less than one percent of sales and typically require growth in revenue for amounts to be payable. As a result, although the Company cannot accurately estimate the level of future possible royalties, the Company does not believe that such royalties will have a material adverse effect on future results of operations. The Company is also required to pay royalties through LXE. These royalty fees are based on the sales of specific products and are calculated at fixed percentages on their net selling price. In total, the Company incurred costs of $1.2 million, $1.3 million, and $1.1 million related to royalty fees in 2009, 2008 and 2007, respectively.

The Company periodically enters into agreements with customers and suppliers that include limited intellectual property indemnification obligations that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third-party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount for which it could be obligated.

The Company provides a limited warranty for a variety of its products. The basic warranty periods vary from one to five years, depending upon the type of product. The Company records a liability for the estimated costs to be incurred under basic warranties, which is included in other current liabilities on the Company's consolidated balance sheets. The amount of this liability is based upon historical, as well as expected, rates of warranty claims. The warranty liability is periodically reviewed for adequacy and adjusted as necessary. Following is a summary of the activity for the periods presented related to the Company's liability for limited warranties (in thousands):

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Balance at beginning of the period | $ 2,789 | 2,647 | 2,051 |
| Additions at dates of acquisition for businesses acquired during period | 464 | - | - |
| Accruals for warranties issued during the period | 3,866 | 3,308 | 3,175 |
| Settlements made during the period | (3,034) | (3,166) | (2,579) |
| Balance at end of period | $ 4,085 | 2,789 | 2,647 |

**(14) LITIGATION**

Prior to 2007, the Company disposed of its 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, the Company 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, the Company accrued a liability for the award costs in discontinued operations in 2009. The Company accrues 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, the Company 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.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**(15) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Following is a summary of interim financial information for the years ended December 31, 2009 and 2008 (in thousands, except net earnings (loss) per share):

| | 2009 Quarters Ended | | | |
|---|---|---|---|---|
| | April 4 | July 4 | October 3 | December 31 |
| Net sales | $ 92,278 | 96,938 | 85,731 | 85,025 |
| Operating (loss) income | (1,942) | 3,355 | 2,566 | (18,612) |
| (Loss) earnings from continuing operations | (2,968) | 3,186 | 5,989 | (19,356) |
| Loss from discontinued operations | - | - | (709) | (6,207) |
| Net (loss) earnings | (2,968) | 3,186 | 5,280 | (25,563) |
| Net (loss) earnings per share: | | | | |
| Basic: | | | | |
| Continuing operations | $ (0.20) | 0.21 | 0.39 | (1.27) |
| Discontinued operations | - | - | (0.05) | (0.41) |
| Net (loss) earnings | $ (0.20) | 0.21 | 0.34 | (1.68) |
| Diluted: | | | | |
| Continuing operations | $ (0.20) | 0.21 | 0.39 | (1.27) |
| Discontinued operations | - | - | (0.05) | (0.41) |
| Net (loss) earnings | $ (0.20) | 0.21 | 0.34 | (1.68) |

| | 2008 Quarters Ended | | | |
|---|---|---|---|---|
| | March 29 | June 28 | September 27 | December 31 |
| Net sales | $ 75,494 | 81,279 | 87,842 | 90,430 |
| Operating income | 3,437 | 3,407 | 7,205 | 5,575 |
| Net earnings | 4,160 | 3,411 | 6,077 | 6,823 |
| Net earnings per share: | | | | |
| Basic: | | | | |
| Continuing operations | $ 0.27 | 0.22 | 0.39 | 0.45 |
| Discontinued operations | - | - | - | - |
| Net earnings | $ 0.27 | 0.22 | 0.39 | 0.45 |
| Diluted: | | | | |
| Continuing operations | $ 0.26 | 0.22 | 0.39 | 0.44 |
| Discontinued operations | - | - | - | - |
| Net earnings | $ 0.26 | 0.22 | 0.39 | 0.44 |

The sum of the earnings per share information on an interim basis in the two tables above may not equal the earnings per share information for the full year due to rounding differences.