UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2024
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number 0-28082

KVH Industries, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**05-0420589**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

50 Enterprise Center, Middletown, RI 02842
(Address of Principal Executive Offices) (Zip Code)
(401) 847-3327
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	KVHI	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Date	Class	Outstanding shares
July 29, 2024	Common Stock, par value $0.01 per share	19,714,086

KVH INDUSTRIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

KVH INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	June 30, 2024	December 31, 2023
ASSETS	**(unaudited)**	
Current assets:		
Cash and cash equivalents	$ 10,357	$ 11,294
Marketable securities	38,903	58,477
Accounts receivable, net of allowance for credit losses of $1,131 and $1,168 as of June 30, 2024 and December 31, 2023, respectively	27,326	25,670
Inventories	22,715	19,046
Prepaid expenses and other current assets	19,191	4,331
Total current assets	118,492	118,818
Property and equipment, net	44,784	47,680
Intangible assets, net	1,014	1,194
Right of use assets	1,396	1,068
Other non-current assets	2,996	3,618
Deferred income tax asset	221	256
Total assets	**$ 168,903**	**$ 172,634**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,618	$ 4,780
Accrued airtime	976	5,508
Accrued compensation and employee-related expenses	5,052	4,466
Accrued loss on future firm purchase commitments	2,961	3,569
Accrued other	2,597	2,588
Accrued product warranty costs	636	828
Deferred revenue	1,586	1,774
Current operating lease liability	964	786
Liability for uncertain tax positions	712	673
Total current liabilities	25,102	24,972
Long-term operating lease liability	421	289
Deferred income tax liability	2	1
Total liabilities	**$ 25,525**	**$ 25,262**
Commitments and contingencies (Notes 2, 11, and 16)		
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued	—	—
Common stock, $0.01 par value. Authorized 30,000,000 shares; 21,170,195 and 21,066,899 shares issued at June 30, 2024 and December 31, 2023, respectively; and 19,714,086 and 19,610,790 shares outstanding at June 30, 2024 and December 31, 2023, respectively	212	211
Additional paid-in capital	166,490	165,140
Accumulated deficit	(7,243)	(1,704)
Accumulated other comprehensive loss	(3,991)	(4,185)
	155,468	159,462
Less: treasury stock at cost, common stock, 1,456,109 shares as of June 30, 2024 and December 31, 2023	(12,090)	(12,090)
Total stockholders' equity	**143,378**	**147,372**
Total liabilities and stockholders' equity	**$ 168,903**	**$ 172,634**

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sales:				
Service	$ 24,674	$ 28,746	$ 49,712	$ 57,486
Product	3,999	4,840	8,228	10,243
Net sales	28,673	33,586	57,940	67,729
Costs and expenses:				
Costs of service sales	15,469	15,534	29,513	31,610
Costs of product sales	4,299	6,218	9,607	11,531
Research and development	2,326	2,416	5,364	4,981
Sales, marketing and support	5,334	5,124	10,718	10,832
General and administrative	4,134	4,122	9,425	8,772
Total costs and expenses	31,562	33,414	64,627	67,726
(Loss) income from operations	(2,889)	172	(6,687)	3
Interest income	876	885	1,787	1,663
Other expense, net	(366)	(238)	(564)	(462)
(Loss) income before income tax (benefit) expense	(2,379)	819	(5,464)	1,204
Income tax (benefit) expense	(3)	46	75	64
Net (loss) income	**$ (2,376)**	**$ 773**	**$ (5,539)**	**$ 1,140**
Net (loss) income per common share				
Basic	**$ (0.12)**	**$ 0.04**	**$ (0.29)**	**$ 0.06**
Diluted	**$ (0.12)**	**$ 0.04**	**$ (0.29)**	**$ 0.06**
Weighted average number of common shares outstanding:				
Basic	**19,381**	**19,153**	**19,333**	**19,018**
Diluted	**19,381**	**19,275**	**19,333**	**19,161**

See accompanying Notes to Unaudited Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net (loss) income	$ (2,376)	$ 773	$ (5,539)	$ 1,140
Other comprehensive income, net of tax:				
Unrealized (loss) gain on available-for-sale securities	—	(1)	—	12
Foreign currency translation adjustment	(35)	77	194	143
Other comprehensive income, net of tax[1]	(35)	76	194	155
Total comprehensive (loss) income	$ (2,411)	$ 849	$ (5,345)	$ 1,295

(1) Tax impact was nominal for all periods.

See accompanying Notes to Unaudited Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, unaudited)

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at March 31, 2024	**21,205**	**$ 212**	**$ 165,768**	**$ (4,867)**	**$ (3,956)**	**(1,456)**	**$ (12,090)**	**$ 145,067**
Net loss	—	—	—	(2,376)	—	—	—	(2,376)
Other comprehensive loss	—	—	—	—	(35)	—	—	(35)
Stock-based compensation	—	—	722	—	—	—	—	722
Exercise of stock options and issuance of restricted stock awards, net of forfeitures	(35)	—	—	—	—	—	—	—
Balance at June 30, 2024	**21,170**	**$ 212**	**$ 166,490**	**$ (7,243)**	**$ (3,991)**	**(1,456)**	**$ (12,090)**	**$ 143,378**

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2023	**21,067**	**$ 211**	**$ 165,140**	**$ (1,704)**	**$ (4,185)**	**(1,456)**	**$ (12,090)**	**$ 147,372**
Net loss	—	—	—	(5,539)	—	—	—	(5,539)
Other comprehensive income	—	—	—	—	194	—	—	194
Stock-based compensation	—	—	1,244	—	—	—	—	1,244
Issuance of common stock under employee stock purchase plan	24	—	95	—	—	—	—	95
Exercise of stock options and issuance of restricted stock awards, net of forfeitures	79	1	11	—	—	—	—	12
Balance at June 30, 2024	**21,170**	**$ 212**	**$ 166,490**	**$ (7,243)**	**$ (3,991)**	**(1,456)**	**$ (12,090)**	**$ 143,378**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at March 31, 2023	**20,826**	**$ 208**	**$ 161,779**	**$ 14,085**	**$ (4,031)**	**(1,456)**	**$ (12,090)**	**$ 159,951**
Net income	—	—	—	773	—	—	—	773
Other comprehensive income	—	—	—	—	76	—	—	76
Stock-based compensation	—	—	578	—	—	—	—	578
Exercise of stock options and issuance of restricted stock awards, net of forfeitures	143	2	1,333	—	—	—	—	1,335
Balance at June 30, 2023	**20,969**	**$ 210**	**$ 163,690**	**$ 14,858**	**$ (3,955)**	**(1,456)**	**$ (12,090)**	**$ 162,713**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2022	**20,631**	**$ 206**	**$ 160,475**	**$ 13,718**	**$ (4,110)**	**(1,433)**	**$ (11,851)**	**$ 158,438**
Net income	—	—	—	1,140	—	—	—	1,140
Other comprehensive income	—	—	—	—	155	—	—	155
Stock-based compensation	—	—	874	—	—	—	—	874
Acquisition of treasury stock	—	—	—	—	—	(23)	(239)	(239)
Exercise of stock options and issuance of restricted stock awards, net of forfeitures	338	4	2,341	—	—	—	—	2,345
Balance at June 30, 2023	**20,969**	**$ 210**	**$ 163,690**	**$ 14,858**	**$ (3,955)**	**(1,456)**	**$ (12,090)**	**$ 162,713**

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Cash flows from operating activities:		
Net (loss) income	$ (5,539)	$ 1,140
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for credit losses	138	(1)
Depreciation and amortization	6,985	6,920
Deferred income taxes	36	3
Loss on disposals of fixed assets	1,211	323
Compensation expense related to stock-based awards and employee stock purchase plan	1,244	874
Unrealized currency translation loss	208	19
Changes in operating assets and liabilities:		
Accounts receivable	(1,801)	481
Inventories	(3,669)	(1,447)
Prepaid expenses and other current assets	(14,867)	712
Other non-current assets	604	445
Accounts payable	4,841	(8,260)
Deferred revenue	(182)	203
Accrued compensation, product warranty and other	(4,666)	(4,598)
Net cash used in operating activities	**$ (15,457)**	**$ (3,186)**
Cash flows from investing activities:		
Capital expenditures	(5,105)	(4,744)
Cash paid for acquisition of intangible asset	(21)	(23)
Purchases of marketable securities	(1,426)	(16,697)
Maturities and sales of marketable securities	21,000	15,422
Net cash provided by (used in) investing activities	**$ 14,448**	**$ (6,042)**
Cash flows from financing activities:		
Proceeds from stock options exercised and employee stock purchase plan	96	2,367
Purchase of treasury stock	—	(239)
Payment of finance lease	—	(22)
Net cash provided by financing activities	**$ 96**	**$ 2,106**
Effect of exchange rate changes on cash and cash equivalents	(24)	74
Net decrease in cash and cash equivalents	**(937)**	**(7,048)**
Cash and cash equivalents at beginning of period	**11,294**	**21,056**
Cash and cash equivalents at end of period	**$ 10,357**	**$ 14,008**
Supplemental disclosure of non-cash investing and financing activities:		
Changes in accrued other and accounts payable related to property and equipment additions	$ 21	$ 47

See accompanying Notes to Unaudited Consolidated Financial Statements.

(1) Description of Business

KVH Industries, Inc. (together with its subsidiaries, the Company or KVH) designs, develops, manufactures and markets mobile connectivity services and products for the marine and land markets.

KVH's service sales primarily represent revenue earned from satellite Internet airtime services. KVH provides, for monthly fixed and per-usage fees, satellite connectivity encompassing broadband Internet and VoIP services, to its TracNet H-series and TracPhone V-HTS series customers via KVH's global high-throughput satellite (HTS) network. Revenue from our cellular airtime service supplements KVH's satellite-only airtime revenue following the July 2022 launch of the KVH ONE hybrid network and TracNet H-series terminals. This service and product combination integrates global satellite service with KVH-provided cellular service in more than 150 countries, along with shore-based Wi-Fi access. In March 2023, KVH began selling Starlink terminals and in September 2023 became a Starlink authorized hardware and airtime reseller. The May 2023 introduction of the KVH ONE OpenNet Program expanded access to KVH's global HTS network and airtime services to non-KVH terminals for the first time.

AgilePlans, KVH's connectivity as a service offering, is a monthly subscription model that provides global connectivity to commercial maritime customers. The subscription can include KVH VSAT terminals and data service, Starlink terminals and data service, KVH's CommBox™ Edge Communications Gateway and associated service licensing, VoIP, daily news, subsidized shipping and installation, and global support for a monthly fee with no minimum contract commitment. KVH offers AgilePlans subscribers a variety of airtime data plans with varying data speeds and fixed data usage levels with per megabyte overage charges. These airtime plans are similar to those the Company offers to customers who elect to purchase or lease a TracNet H-series or TracPhone V-HTS series terminal.

The Company recognizes the monthly AgilePlans subscription fee as service revenue over the service delivery period. The Company retains ownership of the hardware it provides to AgilePlans customers, who must return the hardware to KVH if they decide to terminate the service. Because KVH does not sell the hardware under AgilePlans, the Company does not recognize any product revenue when the hardware is deployed to an AgilePlans customer. KVH records the cost of the hardware used by AgilePlans customers as revenue-generating assets and depreciates the cost over an estimated useful life of two to five years. Since the Company retains ownership of the hardware, it does not accrue any warranty costs for AgilePlans hardware; however, any maintenance costs on the hardware are expensed in the period these costs are incurred.

Service sales also include the distribution of commercially licensed entertainment, including news, sports, and movies to commercial customers in the maritime and hotel markets through the KVH Media Group, along with supplemental value-added cybersecurity, email, and crew internet services. In addition, KVH earns monthly usage fees from third-party satellite connectivity services, including VoIP, data and Internet services, provided to its Inmarsat and Iridium customers who choose to activate their subscriptions with KVH. Service sales also include sales from product repairs and extended warranty sales.

KVH's satellite-only and hybrid products enable marine customers to receive data, Voice over Internet Protocol (VoIP), and value-added services via satellite, cellular, and shore-based Wi-Fi networks onboard commercial, leisure, and military/government vessels. In addition, the Company's in-motion television terminals permit customers to receive live digital television via regional satellite services in marine vessels, recreational vehicles, buses and automobiles. KVH sells its products through an extensive international network of dealers and distributors. KVH also sells and leases products to service providers and end users.

KVH's marine leisure business is highly seasonal. Seasonality can also impact the Company's commercial marine business, although typically to a lesser degree. Temporary suspensions of the Company's airtime services typically increase in the fourth and first quarters of each year as boats are placed out of service during the winter months. Historically, the Company has generated the majority of its marine leisure product revenues during the first and second quarters of each year, and these revenues typically decline in the third and fourth quarters of each year, compared to the first two quarters.

In February 2024, the Company announced a staged wind-down of its product manufacturing operations at its Middletown, Rhode Island location. The Company expects that it will continue its product manufacturing activities in order to generate a targeted amount of inventory of maritime satellite connectivity and satellite television terminals to meet anticipated demand and that it will cease substantially all manufacturing activity by the end of 2025. The Company expects to continue to facilitate customer transition to third-party hardware products compatible with its mobile satellite communications services.

(2) Summary of Significant Accounting Policies

2023 10-K - Revision for Correction of Immaterial Errors

As stated in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, which was filed on March 15, 2024, the Company corrected for errors that were immaterial to its previously reported consolidated financial statements. These errors were identified in connection with the preparation of the Company's consolidated financial statements for the year ended December 31, 2023, and related primarily to the adoption and implementation of Accounting Standards Codification (“ASC”) No. 606, Revenue from Contracts with Customers (“ASC 606”) on January 1, 2018, specifically, the assessment of performance obligations associated with the sales of antennas and airtime-related equipment. The Company evaluated the materiality of these errors both qualitatively and quantitatively in accordance with Staff Accounting Bulletin (“SAB”) No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, and determined that the effect of these corrections was not material to the previously issued financial statements. Therefore, the amounts in the previous period have been revised to reflect the correction of these errors.

Basis of Presentation

The accompanying consolidated interim financial statements of KVH Industries, Inc. and its wholly owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company has evaluated all subsequent events through the date of this filing. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated interim financial statements have not been audited by the Company’s independent registered public accounting firm and include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods presented. These consolidated interim financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the Company’s consolidated financial statements and related notes included in the Company’s annual report on Form 10-K for the year ended December 31, 2023 filed on March 15, 2024 with the Securities and Exchange Commission. The results for the three and six months ended June 30, 2024 are not necessarily indicative of operating results for the remainder of the year.

Significant Estimates and Assumptions and Other Significant Non-Recurring Transactions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. The estimates and assumptions used by management affect the Company’s revenue recognition, valuation of accounts receivable, valuation of inventory, expected future cash flows (including growth rates, discount rates, terminal values and other assumptions and estimates used to evaluate the recoverability of long-lived assets and goodwill), estimated fair values of long-lived assets (including goodwill, amortization methods and amortization periods), certain accrued expenses and other related charges, stock-based compensation, contingent liabilities, forfeitures and key valuation assumptions for its share-based awards, estimated fulfillment costs for warranty obligations, tax reserves and recoverability of the Company’s net deferred tax assets and related valuation allowance, and the valuation of right-of-use assets and lease liabilities.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries located in Denmark, Singapore and Cyprus are maintained using the United States dollar as the functional currency. Exchange rates in effect on the date of the transaction are used to record monetary assets and liabilities. Revenue and other expense elements are recorded at rates that approximate the rates in effect on the transaction dates. Foreign currency exchange gains and losses are recognized within "other expense, net" in the accompanying consolidated statements of operations. The Company recorded net foreign currency exchange losses, which are comprised of both realized and unrealized foreign currency exchange gains and losses, in its accompanying consolidated statements of operations of $(248) and $(56) for the three months ended June 30, 2024 and 2023, respectively, and $(269) and $(110) for the six months ended June 30, 2024 and 2023, respectively.

The financial statements of the Company's foreign subsidiaries located in the United Kingdom, Brazil, Norway, India and Japan use the foreign subsidiaries' respective local currencies as the functional currency. The Company translates the assets and liabilities of these foreign subsidiaries at the exchange rates in effect at the end of each reporting period. Net sales, costs and expenses are translated using average exchange rates in effect during the period. Gains and losses from foreign currency translation are credited or charged to accumulated other comprehensive loss included in stockholders' equity in the accompanying consolidated balance sheets.

(3) Recently Issued Accounting Standards and Accounting Standards Not yet Adopted

There are no recent accounting pronouncements that have been issued by the FASB, that are not yet effective and that the Company expects would have a material impact on the Company's financial statements.

(4) Marketable Securities

Marketable securities as of June 30, 2024 and December 31, 2023 consisted of the following:

June 30, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market mutual funds	$ 38,903	$ —	$ —	$ 38,903
Total marketable securities designated as available-for-sale	$ 38,903	$ —	$ —	$ 38,903

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market mutual funds	$ 58,477	$ —	$ —	$ 58,477
Total marketable securities designated as available-for-sale	$ 58,477	$ —	$ —	$ 58,477

Interest income from marketable securities was $706 and $687 during the three months ended June 30, 2024 and 2023, respectively, and $1,426 and $1,275 during the six months ended June 30, 2024 and 2023, respectively.

(5) Stockholder's Equity

(a) Stock Equity and Incentive Plan

The Company recognizes stock-based compensation in accordance with the provisions of ASC Topic 718, *Compensation-Stock Compensation*. Stock-based compensation expense was $721 and $566, excluding $1 and $12 of compensation charges related to our Amended and Restated 1996 Employee Stock Purchase Plan, or the ESPP, for the three months ended June 30, 2024 and 2023, respectively, and $1,238 and $850, excluding $6 and $24 of compensation shares related to the ESPP, for the six months ended June 30, 2024 and 2023, respectively. As of June 30, 2024, there was $1,614 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 2.68 years. As of June 30, 2024, there was $1,881 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.76 years.

Stock Options

During the three months ended June 30, 2024, no shares of common stock were issued upon the exercise of stock options. No shares were surrendered to the Company to satisfy minimum tax withholding obligations. Additionally, during the three months ended June 30, 2024, no stock options were granted and 257 stock options expired, were canceled or were forfeited.

During the six months ended June 30, 2024, no shares of common stock were issued upon the exercise of stock options. No shares were surrendered to the Company to satisfy minimum tax withholding obligations. Additionally, during the six months ended June 30, 2024, 266 stock options were granted and 271 stock options expired, were canceled or were forfeited. During the six months ended June 30, 2023, 317 stock options were granted. The Company has historically estimated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions utilized to determine the fair value of options granted during the six months ended June 30, 2024 and 2023 are as follows:

	Six Months Ended June 30,	
	2024	**2023**
Risk-free interest rate	4.36 %	4.49 %
Expected volatility	48.63 %	43.93 %
Expected life (in years)	4.32	4.30
Dividend yield	0 %	0 %

As of June 30, 2024, there were 1,225 options outstanding with a weighted average exercise price of $8.64 per share and 599 options exercisable with a weighted average exercise price of $9.84 per share.

Restricted Stock

During the three months ended June 30, 2024, no shares of restricted stock were granted and 35 shares of restricted stock were forfeited. Additionally, during the three months ended June 30, 2024, 76 shares of restricted stock vested.

During the six months ended June 30, 2024, 122 shares of restricted stock were granted with a weighted average grant date fair value of $5.03 per share and 43 shares of restricted stock were forfeited. Additionally, during the six months ended June 30, 2024, 142 shares of restricted stock vested.

As of June 30, 2024, the Company had no unvested outstanding options and no outstanding shares of restricted stock that were subject to performance-based or market-based vesting conditions.

(b) Employee Stock Purchase Plan

The Company's ESPP affords eligible employees the right to purchase common stock, via payroll deductions, through various offering periods at a purchase price equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. During the three months ended June 30, 2024 and 2023, no shares were issued under the ESPP plan. During the six months ended June 30, 2024 and 2023, 24 and 0 shares were issued under the ESPP plan, respectively. The Company recorded compensation charges related to the ESPP of $1 and $12 for the three months ended June 30, 2024 and 2023, respectively, and $6 and $24 for the six months ended June 30, 2024 and 2023, respectively.

(c) Stock-Based Compensation Expense

The following table presents stock-based compensation expense, including expense for the ESPP, in the Company's consolidated statements of operations for the six months ended June 30, 2024 and 2023, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Cost of service sales	7	5	$ 14	$ 9
Cost of product sales	$ 5	$ 9	14	16
Research and development	174	149	263	237
Sales, marketing and support	74	59	145	97
General and administrative	462	356	808	515
	$ 722	**$ 578**	**$ 1,244**	**$ 874**

(d) Accumulated Other Comprehensive Loss (AOCL)

Comprehensive income (loss) includes net income (loss), unrealized gains and losses from foreign currency translation, and unrealized gains and losses on available for sale marketable securities. The components of the Company's comprehensive income (loss) and the effect on earnings for the periods presented are detailed in the accompanying consolidated statements of comprehensive (loss) income.

The balances for the three months ended June 30, 2024 and 2023 are as follows:

	Foreign Currency Translation	Unrealized Gain (Loss) on Available for Sale Marketable Securities	Total Accumulated Other Comprehensive Loss
Balance, March 31, 2024	**$ (3,956)**	**$ —**	**$ (3,956)**
Other comprehensive loss	(35)	—	(35)
Net other comprehensive loss	(35)	—	(35)
Balance, June 30, 2024	**$ (3,991)**	**$ —**	**$ (3,991)**

	Foreign Currency Translation	Unrealized Gain (Loss) on Available for Sale Marketable Securities	Total Accumulated Other Comprehensive Loss
Balance, March 31, 2023	**$ (4,032)**	**$ 1**	**$ (4,031)**
Other comprehensive income (loss)	77	(1)	76
Net other comprehensive income (loss)	77	(1)	76
Balance, June 30, 2023	**$ (3,955)**	**$ —**	**$ (3,955)**

The balances for the six months ended June 30, 2024 and 2023 are as follows:

	Foreign Currency Translation	Unrealized Gain (Loss) on Available for Sale Marketable Securities	Total Accumulated Other Comprehensive Loss
Balance, December 31, 2023	**$ (4,185)**	**$ —**	**$ (4,185)**
Other comprehensive income	194	—	194
Net other comprehensive income	194	—	194
Balance, June 30, 2024	**$ (3,991)**	**$ —**	**$ (3,991)**

	Foreign Currency Translation	Unrealized (Loss) Gain on Available for Sale Marketable Securities	Total Accumulated Other Comprehensive Loss
Balance, December 31, 2022	**$ (4,098)**	**$ (12)**	**$ (4,110)**
Other comprehensive income	143	12	155
Net other comprehensive income	143	12	155
Balance, June 30, 2023	**$ (3,955)**	**$ —**	**$ (3,955)**

(6) Net (Loss) Income per Common Share

Basic net (loss) income per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury stock accounting method. For the three and six months ended June 30, 2024, since there was a net loss, the company excluded all 1,375 and 1,297, respectively, in outstanding stock options and non-vested restricted shares from its diluted loss per share calculation, as inclusion of these convertible securities would have reduced the net loss per share.

A reconciliation of the basic and diluted weighted average common shares outstanding is as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2024	**2023**	**2024**	**2023**
Weighted average common shares outstanding—basic	19,381	19,153	19,333	19,018
Dilutive common shares issuable in connection with stock plans	—	122	—	143
Weighted average common shares outstanding—diluted	19,381	19,275	19,333	19,161

(7) Inventories

Inventories are stated at the lower of cost or net realizable value using the first-in first-out costing method. Inventories as of June 30, 2024 and December 31, 2023 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	June 30, 2024	December 31, 2023
Raw materials	$ 15,485	$ 11,352
Work in process	3,836	2,617
Finished goods	3,394	5,077
	$ 22,715	$ 19,046

(8) Prepaid Expenses and Other Current Assets

	June 30, 2024	December 31, 2023
Prepaid Starlink pooled data	$ 16,950	$ —
Other prepaid expenses and other current assets	2,241	4,331
	$ 19,191	$ 4,331

During the second quarter of 2024, KVH expanded its relationship with Starlink through a bulk data distribution agreement. Under the agreement, KVH prepaid for access to a large block of Starlink Mobile Priority data at favorable rates. The new agreement offers KVH increased flexibility in the development and sales of custom, cost-effective airtime plans using Starlink’s Mobile Priority service. KVH began drawing from this prepaid pooled data in the third quarter of 2024.

(9) Property and Equipment

Property and equipment, net, as of June 30, 2024 and December 31, 2023 consist of the following:

	June 30, 2024	December 31, 2023
Land	$ 2,833	$ 2,833
Building and improvements	18,839	18,839
Leasehold improvements	437	445
Machinery and equipment	6,020	5,989
Revenue-generating assets	64,526	60,984
Office and computer equipment	11,737	14,213
Motor vehicles	31	31
	104,423	103,334
Less accumulated depreciation	(59,639)	(55,654)
	$ 44,784	$ 47,680

Depreciation expense was $3,637 and $3,404 for the three months ended June 30, 2024 and 2023, respectively, and $6,784 and $6,772 for the six months ended June 30, 2024 and 2023, respectively.

Certain revenue-generating hardware assets are utilized by the Company in the delivery of the Company's airtime services, media and other content.

As of June 30, 2024 and December 31, 2023, the long-lived tangible assets related to the Company’s international subsidiaries were less than 10% of the Company’s long-lived tangible assets.

(10) Product Warranty

The Company's products carry standard limited warranties that range from one to two years and vary by product. The warranty period begins on the date of retail purchase or lease by the original purchaser. The Company accrues estimated product warranty costs at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated. Factors that affect the Company's warranty liability include the number of units sold or leased, historical and anticipated rates of warranty repairs and the cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying consolidated statements of operations. As of June 30, 2024 and December 31, 2023, the Company had accrued product warranty costs of $636 and $828, respectively.

The following table summarizes product warranty activity during 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Beginning balance	$ 828	$ 1,287
Charges to expense	465	321
Costs incurred	(657)	(920)
Ending balance	$ 636	$ 688

(11) Legal Matters

In the ordinary course of business, the Company is a party to inquiries, legal proceedings and claims including, from time to time, disagreements with vendors and customers. The Company is not a party to any lawsuit or proceeding that, in management's opinion, is likely to materially harm the Company's business, results of operations, financial condition, or cash flows.

(12) Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company's Level 1 assets are investments in money market mutual funds.

Level 2: Quoted prices for similar assets or liabilities in active markets; or observable prices that are based on observable market data, based on directly or indirectly market-corroborated inputs. The Company has no Level 2 assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and are developed based on the best information available given the circumstances. The Company has no Level 3 assets.

Assets and liabilities measured at fair value are based on the valuation techniques identified in the table below.

The following tables present financial assets and liabilities at June 30, 2024 and December 31, 2023 for which the Company measures fair value on a recurring basis, by level, within the fair value hierarchy:

June 30, 2024	Total	Level 1	Level 2	Level 3	Valuation Technique
Assets					
Money market mutual funds	$ 38,903	$ 38,903	$ —	$ —	(a)

December 31, 2023	Total	Level 1	Level 2	Level 3	Valuation Technique
Assets					
Money market mutual funds	$ 58,477	$ 58,477	$ —	$ —	(a)

(a) Market approach—prices and other relevant information generated by market transactions involving identical or comparable assets.

The carrying amount of certain financial instruments approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses. The carrying amount of the Company's operating and financing lease liabilities approximates fair value based on currently available quoted rates of similarly structured borrowings.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company's non-financial assets, such as intangible assets, and other long-lived assets resulting from business combinations, are measured at fair value using income approach valuation methodologies at the date of acquisition and subsequently re-measured if indications of impairment exist. There was no impairment of the Company's non-financial assets noted during the six months ended June 30, 2024 or 2023. The Company does not have any liabilities that are recorded at fair value on a non-recurring basis.

(13) Intangible Assets

Intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of intangible assets is measured by a comparison of the carrying amount of an asset group to its future undiscounted cash flows. If these comparisons indicate that an asset group is not recoverable, the Company will recognize an impairment loss for the amount by which the carrying value of the asset group exceeds its related estimated fair value. The Company has determined that the assets within each of the Company's reporting units (Mobile Broadband (MBB) and KVH Media Group (Media)) are highly interrelated and interdependent on each other to generate revenues, and thus independent cash flows are not identifiable at a level lower than that of these reporting units. Accordingly, the Company's asset groups were determined to be its reporting units (MBB and Media).

The changes in the carrying amount of intangible assets during the six months ended June 30, 2024 are as follows:

	Amounts
Balance at December 31, 2023	$ 1,194
Amortization expense	(201)
Intangible assets acquired in asset acquisition	21
Balance at June 30, 2024	$ 1,014

Intangible assets arose from the purchase of distribution rights from Kognitive Networks Inc. and the purchase of KVH Industries Norway AS. The assets related to the distribution rights with Kognitive Networks are being amortized on a straight-line basis over the estimated useful life of 3 years. The assets related to the purchase of KVH Industries Norway AS for acquired intellectual property are fully amortized.

In January 2017, the Company completed the acquisition of certain subscriber relationships from a third party. This acquisition did not meet the definition of a business under ASC 2017-01, *Business Combinations (Topic 805)-Clarifying the Definition of a Business*. The Company ascribed $100 of the initial purchase price to the acquired subscriber relationships definite-lived intangible assets with an initial estimated useful life of 10 years. Under the asset purchase agreement, the purchase price includes a component of contingent consideration under which the Company is required to pay a percentage of recurring revenues received from the acquired subscriber relationships through 2026 up to a maximum annual payment of $114. The amounts payable under the contingent consideration arrangement, if any, will be included in the measurement of the cost of the acquired subscriber relationships.

Acquired intangible assets are subject to amortization. The following table summarizes acquired intangible assets at June 30, 2024 and December 31, 2023, respectively:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
June 30, 2024			
Subscriber relationships	$ 32	$ 5	$ 27
Distribution rights	1,250	263	987
Intellectual property	2,284	2,284	—
	$ 3,566	$ 2,552	$ 1,014
December 31, 2023			
Subscriber relationships	$ 11	$ 1	$ 10
Distribution rights	1,250	66	1,184
Intellectual property	2,284	2,284	—
	$ 3,545	$ 2,351	$ 1,194

Amortization expense related to intangible assets was $101 and $55 for the three months ended June 30, 2024 and 2023, respectively, and $201 and $148 for the six months ended June 30, 2024 and 2023, respectively. Amortization expense was categorized as general and administrative expense.

As of June 30, 2024, the total weighted average remaining useful lives of the definite-lived intangible assets was 2.5 years.

Estimated future amortization expense for intangible assets recorded by the Company at June 30, 2024 is as follows:

Years ending December 31,	Amortization Expense
2024	$ 202
2025	406
2026	406
Total amortization expense	$ 1,014

(14) Revenue from Contracts with Customers

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised products and services. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for these products and services.

Disaggregation of Revenue

The following table summarizes net sales from contracts with customers for the six months ended June 30, 2024 and 2023:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		**2023**		**2024**		**2023**	
Service - over time		24,674		28,746	$	49,712	$	57,486
Product - point in time	$	3,999	$	4,840		8,228		10,243
Total net sales	$	28,673	$	33,586	$	57,940	$	67,729

For product sales, the delivery of the Company’s performance obligations is generally transferred to the customer, and associated revenue is recognized, at a point in time. For service sales, the delivery of the Company’s performance obligations is transferred to the customer, and associated revenue is recognized, over time. Revenues for these service agreements are recognized over time using an output method based upon the passage of time, as this provides a faithful depiction of the pattern of transfer of control. The Company's performance is impacted by the levels of activity in the marine and land mobile markets, among other factors. Performance in any particular period could be impacted by the timing of sales to certain large customers.

The Company offers a comprehensive family of mobile satellite antenna services and products that provide access to the Internet, television, and VoIP services while on the move. Product sales accounted for 14% of the Company's consolidated net sales for both the three months ended June 30, 2024 and 2023 and 14% and 15% of the Company's consolidated net sales for the six months ended June 30, 2024 and 2023, respectively. Service sales of VSAT Broadband airtime service accounted for 74% and 80% of the Company's consolidated net sales for the three months ended June 30, 2024 and 2023, respectively, and 76% and 80% of the Company's consolidated net sales for the six months ended June 30, 2024 and 2023, respectively. The balance of service sales is comprised of distribution of commercially licensed entertainment and news, product repairs, and extended warranty sales.

No other single product class accounts for 10% or more of the Company's consolidated net sales.

The Company operates in a number of major geographic areas, including internationally. Revenues from international locations primarily include Singapore, Canada, South American countries, European Union countries and other European countries, and countries in Africa, the Middle East and Asia/Pacific, including India. Revenues are based upon customer location, and revenues from international locations represented 71% and 67% of consolidated net sales for the three months ended June 30, 2024 and 2023, respectively, and 72% and 66% of consolidated net sales for the six months ended June 30, 2024 and 2023, respectively. Sales to Singapore customers represented 20% and 19% of the Company's consolidated net sales for the three months ended June 30, 2024 and 2023, respectively. No other individual foreign country represented 10% or more of the Company's consolidated net sales for the three months ended June 30, 2024 or 2023. Sales to Singapore customers represented 21% and 18% of the Company's consolidated net sales for the six months ended June 30, 2024 and 2023, respectively. No other individual foreign country represented 10% or more of the Company's consolidated net sales for the six months ended June 30, 2024 or 2023.

Business and Credit Concentrations

Concentrations of risk with respect to trade accounts receivable are generally limited due to the large number of customers and their dispersion across several geographic areas. Although the Company does not foresee that credit risk associated with these receivables will deviate from historical experience, repayment is dependent upon the financial stability of those individual customers. The Company establishes allowances for credit losses and evaluates, on a monthly basis, the adequacy of those reserves based upon expected losses, historical experience and its expectation for future collectability concerns.

No single customer accounted for 10% or more of consolidated net sales for the six months ended June 30, 2024 or 2023. One customer accounted for approximately 21% and 23% of accounts receivable at June 30, 2024 and December 31, 2023, respectively. One customer accounted for 57% and 62% of long-term accounts receivable included in other non-current assets on the consolidated balance sheets related to sales-type leases at June 30, 2024 and December 31, 2023, respectively.

Certain components from third parties used in the Company’s products are procured from single sources of supply. The failure of a supplier, including a subcontractor, to deliver on schedule could delay or interrupt the Company’s delivery of products and thereby materially adversely affect the Company’s revenues and operating results.

(15) Income Taxes

The Company’s effective tax rate for the three and six months ended June 30, 2024 was 0.1% and (1.4)%, respectively, compared with 5.6% and 5.3%, for the corresponding periods in the prior year. The effective income tax rate is based on estimated income for the year, the estimated composition of the income in different jurisdictions and discrete adjustments, if any, in the applicable periods, including retroactive changes in tax legislation, settlements of tax audits or assessments, and the resolution or identification of tax position uncertainties.

For the three and six months ended June 30, 2024 and 2023, the effective tax rates differed from the statutory tax rate primarily due to the Company maintaining a valuation allowance reserve on its U.S. deferred tax assets, discrete tax adjustments and the composition of income from foreign jurisdictions taxed at lower rates.

As of June 30, 2024 and December 31, 2023, the Company had reserves for uncertain tax positions of $712 and $673, respectively. There were no material changes during the six months ended June 30, 2024 to the Company’s reserve for uncertain tax positions. The Company estimates that it is reasonably possible that the balance of unrecognized tax benefits as of June 30, 2024 may decrease $27 in the next twelve months as a result of a lapse of statutes of limitations and settlements with taxing authorities.

The Company’s tax jurisdictions include the United States, the United Kingdom, Denmark, Cyprus, Norway, Brazil, Singapore, Japan and India. In general, the statute of limitations with respect to the Company's United States federal income taxes has expired for years prior to 2020, and the relevant state and foreign statutes vary. However, preceding years remain open to examination by United States federal and state and foreign taxing authorities to the extent of future utilization of net operating losses and research and development tax credits generated in each preceding year.

(16) Leases

Lessee

The Company has operating leases for office facilities, equipment, and satellite service capacity and related equipment. Lease expense was $366 and $422 for the three months ended June 30, 2024 and 2023, respectively, and $719 and $874 for the six months ended June 30, 2024 and 2023, respectively. Short-term operating lease costs were $20 and $15 for the three months ended June 30, 2024 and 2023, respectively, and $39 and $40 for the six months ended June 30, 2024 and 2023, respectively. Maturities of lease liabilities as of June 30, 2024 under operating leases having an initial or remaining non-cancelable term of one year or more are as follows:

Remainder of 2024	$	687
2025		421
2026		142
2027		110
2028 and thereafter		107
Total minimum lease payments	$	1,467
Less amount representing interest	$	(82)
Present value of net minimum operating lease payments	$	1,385
Less current installments of obligation under current-operating lease liabilities	$	964
Obligations under long-term operating lease liabilities, excluding current installments	$	421

Weighted-average remaining lease term - operating leases (years)	1.97
Weighted-average discount rate - operating leases	5.50 %

Lessor

The Company enters into leases with certain customers primarily for the TracPhone VSAT systems. These leases are classified as sales-type leases because title to the equipment transfers to the customer at the end of the lease term. The Company records the leases at a price typically equivalent to normal selling price and in excess of the cost or carrying amount. Upon delivery, the Company records the net present value of all payments under these leases as product revenue, and the related costs of the product are charged to cost of sales. Interest income is recognized throughout the lease term (typically three to five years) using an implicit interest rate. The sales-type leases do not have unguaranteed residual assets.

Upon adoption of ASC 842, the Company elected to apply the practical expedient provided to lessors to combine the lease and non-lease component of a contract where the revenue recognition pattern is the same and where the lease component, when accounted for separately, would be considered an operating lease. The practical expedient also allows a lessor to account for the combined lease and non-lease components under ASC 606, Revenue from Contracts with Customers, when the non-lease component is the predominant element of the combined component.

The current portion of the net investment in these leases was $3,326 as of June 30, 2024 and the non-current portion of the net investment in these leases was $2,995 as of June 30, 2024. The current portion of the net investment in the leases is included in accounts receivable, net of allowance for doubtful accounts on the accompanying consolidated balance sheets, and the non-current portion of the net investment in these leases is included in other non-current assets on the accompanying consolidated balance sheets. Interest income from sales-type leases was $117 and $174 during the three months ended June 30, 2024 and 2023, respectively, and $246 and $342 during the six months ended June 30, 2024 and 2023, respectively.

The future undiscounted cash flows from these leases as of June 30, 2024 are:

Remainder of 2024	$	2,360
2025		2,273
2026		1,273
2027		717
2028		270
2029		22
Total undiscounted cash flows	$	6,915
Present value of lease payments	$	6,321
Difference between undiscounted cash flows and discounted cash flows	$	594

In 2021, the Company began entering into three-year leases for its TracPhone VSAT systems, in which ownership of the hardware does not transfer to the lessee by the end of the lease term. As a result, and in light of other factors indicated in ASC 842, these leases are classified as operating leases.

As of June 30, 2024, the gross costs and accumulated depreciation associated with these operating leases are included in revenue generating assets and amounted to $1,861 and $1,080, respectively. They are depreciated on a straight-line basis over a five-year estimated useful life. Depreciation expense for these assets was $94 and $188 for the three and six months ended June 30, 2024, respectively.

Lease revenue recognized was $91 and $217 for the three and six months ended June 30, 2024, respectively, in service sales in the consolidated statements of operations.

As of June 30, 2024, minimum future lease payments to be recognized on the operating leases are as follows:

Remainder of 2024	$	125
2025		25
Total	$	150

(17) Restructuring

On February 9, 2024, the Board of Directors of the Company voted to implement a staged wind-down of the Company's manufacturing activities at its facility in Middletown, Rhode Island. The Board made this determination following a strategic review of the Company's manufacturing operations, driven by reduced demand for the Company's hardware products in the face of intensifying competition during the third and fourth quarters of 2023. The Board concluded that the Company should discontinue its capital-intensive manufacturing activities and concentrate its efforts on growing sales of its multi-orbit, multi-channel, integrated communications solutions, which in recent years have constituted the largest portion of the Company's overall revenues.

The Company expects that it will continue its product manufacturing activities for a period of time in order to generate a targeted amount of inventory of maritime satellite connectivity and satellite television terminals to meet anticipated demand and that it will cease substantially all manufacturing activity at the Middletown facility by the end of 2025. The Company expects to continue to facilitate customer transition to third-party hardware products compatible with the Company's mobile satellite communications services. The Company also plans to continue to conduct maintenance, service, warehousing, shipping and receiving activities at the Middletown location.

As part of this restructuring, the Company reduced its headcount by approximately 75 employees, or approximately 20% of its total workforce as of the time the Company announced the restructuring. As of June 30, 2024, all employee terminations were completed. During the three and six months ended June 30, 2024, the Company incurred $1.2 million and $3.4 million, respectively, of severance charges for this restructuring. The $3.4 million of severance charges incurred during the six months ended June 30, 2024 consisted of approximately $3.0 million of cash charges and approximately $0.3 million of non-cash charges arising from pre-existing contractual obligations to accelerate vesting of certain outstanding equity compensation awards.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The statements included in this quarterly report on Form 10-Q, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, products and services, competitive positions and plans, customer preferences, consumer trends, anticipated product development, and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section entitled "Risk Factors" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2023. These and many other factors could affect our future financial and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by us or on our behalf. For example, our expectations regarding certain items as a percentage of sales assume that we will achieve our anticipated sales goals. The following discussion and analysis should be read in conjunction with our consolidated interim financial statements and related notes appearing elsewhere in this report.

Overview

We are a leading global provider of innovative and technology-driven connectivity solutions to primarily maritime commercial, leisure, and military/government customers. We provide global high-speed Internet and Voice over Internet Protocol (VoIP) services via satellite to mobile users at sea and on land. We are also a leading provider of commercially licensed entertainment, including news, sports, music, and movies, to commercial customers in the maritime and hotel markets, along with supplemental value-added cybersecurity, email, and crew internet services.

We generate a substantial majority of our revenues from sales of satellite Internet airtime services. We provide, for monthly fixed fees and per-usage fees, satellite connectivity encompassing broadband Internet, data and VoIP services, to customers via our global HTS network. In mid-2022, we launched our KVH ONE hybrid network, which integrates global satellite service, including Ku-band VSAT using the Intelsat HTS network along with Starlink, Iridium, and other satellite services, with KVH-provided cellular service in more than 150 countries and shore-based Wi-Fi access. Revenue from our cellular airtime service has supplemented, and we expect will continue to supplement, our satellite-only airtime revenue. In addition, we earn monthly usage fees from sales of third-party satellite connectivity for VoIP, data and Internet services to our Inmarsat, Iridium, and Starlink customers who choose to activate their subscriptions with us. In March 2023, we began selling Starlink terminals and in September 2023 became a Starlink authorized hardware and airtime reseller. We expect to earn usage fees from OneWeb service upon the launch of that service, which we currently anticipate will occur late in the third quarter of 2024. We also generate service revenue from product repairs and extended warranty sales.

Our service sales also include the distribution of entertainment, including news, sports, music, and movies, to commercial customers in the maritime and hotel markets through KVH Media Group, along with supplemental value-added services.

Historically, our Ku-band VSAT communications service has been the primary driver of growth. However, these services represent a declining percentage of our revenues in the face of competition from emerging LEO services. Our satellite-only and hybrid products enable marine customers to receive data, VoIP, and value-added services via satellite, cellular, and shore-based Wi-Fi networks onboard commercial, leisure, and military/government vessels. In addition, our in-motion television terminals permit customers to receive live digital television via regional satellite services in marine vessels, recreational vehicles, buses and automobiles. We sell our products through an extensive international network of dealers and distributors. We also sell and lease products to service providers and end users.

In February 2024, we announced a staged wind-down of our product manufacturing operations at our Middletown, Rhode Island location. The wind-down was driven by reduced demand for our hardware products in the face of intensifying competition in the third and fourth quarters of 2023. We concluded that we should discontinue our capital-intensive manufacturing activities and concentrate our efforts on growing sales of our multi-orbit, multi-channel, integrated communications solutions. We expect that we will continue our product manufacturing activities in order to generate a targeted amount of inventory of maritime satellite connectivity and satellite television terminals to meet anticipated demand and that we will cease substantially all manufacturing activity by the end of 2025. We expect to continue to facilitate customer transition to third-party hardware products compatible with our mobile satellite communications services. We also plan to continue to conduct maintenance, service, warehousing, shipping and receiving activities at the Middletown location.

As part of this restructuring, we reduced our headcount by approximately 75 employees, or approximately 20% of our total workforce as of the time we announced the restructuring. As of June 30, 2024, all employee terminations were completed. During the three and six months ended June 30, 2024, we incurred $1.2 million and $3.4 million, respectively, of severance charges for this restructuring. The $3.4 million of severance charges incurred during the six months ended June 30, 2024 consisted of approximately $3.0 million of cash charges and approximately $0.3 million of non-cash charges arising from pre-existing contractual obligations to accelerate vesting of certain outstanding equity compensation awards.

During the second quarter of 2024, we expanded our relationship with Starlink through a bulk data distribution agreement. Under the agreement, we prepaid $17.0 million for access to a large block of Starlink Mobile Priority data at favorable rates. The new agreement offers us increased flexibility in the development and sale of custom airtime plans using Starlink's Mobile Priority service.

Our marine leisure business has been highly seasonal, and seasonality can also impact our commercial marine business. Temporary suspensions of our airtime services typically increase in the third and fourth quarters of each year as boats are placed out of service during the winter months. Historically, we have generated the majority of our marine leisure product revenues during the first and second quarters of each year, and these revenues typically decline in the third and fourth quarters of each year, compared to the first two quarters.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated interim financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these interim financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure at the date of our interim financial statements. Our significant accounting policies are summarized in Note 1 to the consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2023.

Critical accounting estimates are those estimates made that involve a significant level of estimation uncertainty and have had or are reasonably likely to have an impact on our statement of operations. We believe that our accounting estimates for intangible assets and other long-lived assets are the only estimates critical to an understanding and evaluation of our financial results for the six months ended June 30, 2024, as discussed below.

Results of Operations

The following table provides, for the periods indicated, certain financial data relating to our operations expressed as a percentage of net sales:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sales:				
Service	86.1 %	85.6 %	85.8 %	84.9 %
Product	13.9	14.4	14.2	15.1
Net sales	100.0	100.0	100.0	100.0
Cost and expenses:				
Costs of service sales	53.9	46.3	50.9	46.7
Costs of product sales	15.0	18.5	16.6	17.0
Research and development	8.1	7.2	9.3	7.4
Sales, marketing and support	18.6	15.3	18.5	16.0
General and administrative	14.4	12.3	16.3	13.0
Total costs and expenses	110.0	99.6	111.6	100.1
(Loss) income from operations	(10.0)	0.4	(11.6)	(0.1)
Interest income	3.1	2.6	3.1	2.5
Other expense, net	(1.3)	(0.7)	(1.0)	(0.7)
(Loss) income before income tax (benefit) expense	(8.2)	2.3	(9.5)	1.7
Income tax (benefit) expense	—	0.1	0.1	0.1
Net (loss) income	(8.2)%	2.2 %	(9.6)%	1.6 %

Three months ended June 30, 2024 and 2023

Net Sales

Our net sales for the three months ended June 30, 2024 and 2023 were as follows:

	For the three months ended June 30,		Change 2024 vs. 2023	
	2024	2023	$	%
	(dollars in thousands)			
Service	$ 24,674	$ 28,746	$ (4,072)	(14)%
Product	3,999	4,840	(841)	(17)%
Net sales	$ 28,673	$ 33,586	$ (4,913)	(15)%

Net sales decreased by $4.9 million, or 15%, for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023. Service sales decreased by $4.1 million, or 14%, to $24.7 million for the three months ended June 30, 2024 from $28.7 million for the three months ended June 30, 2023. The decrease was primarily due to a $5.6 million decrease in our VSAT service sales driven primarily by a decrease in subscribers, partially offset by a $1.7 million increase in Starlink service sales. Alternative solutions offered by recent low-earth-orbit (LEO) entrants have heightened competition in the global leisure segment as well as in commercial and government markets. Subscribers to Starlink terminals have approximately doubled from March 31, 2024 to June 30, 2024. We expect that VSAT service sales will continue to decline while Starlink services sales will continue to grow.

We expect that the trend of intensifying competition from LEO satellite service providers will continue and that our quarterly revenues from VSAT service sales will continue to decline on a year-over-year basis. It is possible that the rate of reduction will accelerate. We anticipate that a key driver of the expected reduction in revenue will be an acceleration of the previously disclosed transition by one of our largest customers, the U.S. Coast Guard, of its primary satellite service relationship to Starlink. As a result of the accelerated transition, the anticipated decline in revenue from this customer will occur earlier, reducing the aggregate amount of revenue we expect to receive from this customer in 2024. We anticipate that this decline will begin in the third or fourth quarter of 2024.

Product sales decreased by $0.8 million, or 17%, to $4.0 million for the three months ended June 30, 2024 from $4.8 million for the three months ended June 30, 2023. The decrease in product sales was primarily due to a $1.1 million decrease in VSAT Broadband product sales, a $0.6 million decrease in TracVision product sales and a $0.3 million decrease in accessory product sales, partially offset by a $1.2 million increase in Starlink product sales. The decline in product sales was primarily due to a decrease in unit sales volume. Competition from low-cost alternatives to VSAT, which include streaming capabilities, has had a significant impact on sales of both TracVision and VSAT Broadband products.

Costs of Sales

Costs of sales consists of costs of service sales and costs of product sales. Costs of sales decreased by $2.0 million, or 9%, in the three months ended June 30, 2024 to $19.8 million from $21.8 million in the three months ended June 30, 2023. The decrease in costs of sales was driven by a $1.9 million decrease in costs of product sales and a $0.1 million decrease in costs of service sales. As a percentage of net sales, costs of sales were 69% and 65% for the three months ended June 30, 2024 and 2023, respectively.

Our costs of service sales consist primarily of satellite service capacity, depreciation, service network overhead expense associated with our VSAT Broadband network infrastructure, direct network service labor, product installation costs, media materials and distribution costs, and service repair materials. For the three months ended June 30, 2024, costs of service sales remained flat period-over-period at $15.5 million for both the three months ended June 30, 2024 and 2023, primarily due to a $1.6 million decrease in VSAT Broadband airtime costs of service sales, partially offset by a $1.3 million increase in Starlink airtime costs of service sales. As a percentage of service sales, costs of service sales were 63% and 54% for the three months ended June 30, 2024 and 2023, respectively. During the second quarter of 2024, we expanded our relationship with Starlink through a bulk data distribution agreement whereby we purchased access to a large block of data at favorable rates. Although we expect that future margins on sales of Starlink airtime services will be slightly lower than current margins on sales of our VSAT Broadband airtime services, we expect that the opportunities provided under the agreement will result in improved profitability compared to the previous arrangement with Starlink.

Our costs of product sales consist primarily of materials, manufacturing overhead, and direct labor used to produce our products. For the three months ended June 30, 2024, costs of product sales decreased by $1.9 million, or 31%, to $4.3 million from $6.2 million in the three months ended June 30, 2023, primarily due to a $1.7 million decrease in various manufacturing and other unabsorbed expenses, which primarily consists of labor, purchase price variance, excess and obsolescence write down, absorption and severance costs, a $0.8 million decrease in VSAT Broadband cost of product sales and a $0.5 million decrease in TracVision cost of product sales, partially offset by a $1.1 million increase in Starlink product sales. As a percentage of product sales, costs of product sales were 108% and 128% for the three months ended June 30, 2024 and 2023, respectively. Cost of product sales decreased as a percentage of product sales primarily due to improved purchase price variance and improved absorption driven by the reduction in headcount of manufacturing employees, as well as ramped up production required to achieved targeted inventory levels before completion of the staged wind-down.

Operating Expenses

Research and development expense consists of direct labor, materials, external consultants, and related overhead costs that support our internally funded product development and product sustaining engineering activities. Research and development expense for the three months ended June 30, 2024 decreased by $0.1 million, or 4%, to $2.3 million from $2.4 million for the three months ended June 30, 2023. During the three months ended June 30, 2024, we incurred $0.3 million in costs related to the reduction in our workforce beginning in February 2024, which was more than offset by various cost savings, including a $0.2 million decrease in other salaries, benefits and taxes. As a percentage of net sales, research and development expense was 8% and 7% for the three months ended June 30, 2024 and 2023, respectively.

Sales, marketing, and support expense consists primarily of salaries and related expenses for sales and marketing personnel, commissions for both in-house and third-party representatives, costs related to the co-development of certain content, other sales and marketing support costs such as advertising, literature and promotional materials, product service personnel and support costs, warranty-related costs and bad debt expense. Sales, marketing and support expense also includes the operating expenses of our sales office subsidiaries in Denmark, Singapore, Brazil, and Japan. Sales, marketing and support expense for the three months ended June 30, 2024 increased by $0.2 million, or 4%, to $5.3 million from $5.1 million for the three months ended June 30, 2023. The increase primarily resulted from a $0.4 million increase in bad debt expense and a $0.3 million increase in salaries, benefits and taxes, partially offset by a $0.2 million decrease in facilities expenses. As a percentage of net sales, sales, marketing and support expense was 19% and 15% for the three months ended June 30, 2024 and 2023, respectively.

General and administrative expense consists of costs attributable to management, finance and accounting, information technology, human resources, certain outside professional services, and other administrative costs. General and administrative expense for the three months ended June 30, 2024 remained flat period-over-period at $4.1 million for both the three months ended June 30, 2024 and 2023. During the three months ended June 30, 2024, we incurred $0.3 million in costs related to the reduction in our workforce beginning in February 2024, which was offset by a $0.4 million decrease in other salaries, benefits and taxes. As a percentage of net sales, general and administrative expense was 14% and 12% for the three months ended June 30, 2024 and 2023, respectively.

Interest and Other Expense, Net

Interest income represents interest earned on our cash and cash equivalents, as well as from investments and our sale-type lease receivables. Interest income remained flat period-over-period at $0.9 million for both the three months ended June 30, 2024 and 2023. Of the current period interest income of $0.9 million, $0.8 million is attributable to interest earned on cash and cash equivalents, while the remaining $0.1 million was attributable to interest from lease receivables. Other expense, net increased by $0.1 million to $0.4 million for the three months ended June 30, 2024 from other expense, net of $0.2 million for the three months ended June 30, 2023.

Income Tax (Benefit) Expense

Income tax (benefit) expense for each of the three months ended June 30, 2024 and 2023 was less than $0.1 million and related to taxes on income earned in foreign jurisdictions.

Six months ended June 30, 2024 and 2023

Net Sales

Our net sales for the six months ended June 30, 2024 and 2023 were as follows:

	For the six months ended June 30,		Change 2024 vs. 2023	
	2024	2023	$	%
	(dollars in thousands)			
Service	$ 49,712	$ 57,486	$ (7,774)	(14)%
Product	8,228	10,243	(2,015)	(20)%
Net sales	$ 57,940	$ 67,729	$ (9,789)	(14)%

Net sales decreased by $9.8 million, or 14%, for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023. Service sales decreased by $7.8 million, or 14%, to $49.7 million for the six months ended June 30, 2024 from $57.5 million for the six months ended June 30, 2023. The decrease was primarily due to a $9.7 million decrease in our VSAT service sales driven primarily by a decrease in subscribers, partially offset by a $2.3 million increase in Starlink service sales. Alternative solutions offered by recent LEO entrants have heightened competition in the global leisure segment and in commercial and government markets.

Product sales decreased by $2.0 million, or 20%, to $8.2 million for the six months ended June 30, 2024 from $10.2 million for the six months ended June 30, 2023. The decrease in product sales was primarily due to a $2.4 million decrease in VSAT Broadband product sales, a $1.4 million decrease in TracVision product sales and a $0.5 million decrease in accessory product sales, partially offset by a $2.6 million increase in Starlink product sales. The decline in product sales was primarily due to a decrease in unit sales volume. Competition from low-cost alternatives to VSAT, which include streaming capabilities, has had a significant impact on sales of both TracVision and VSAT Broadband products.

Costs of Sales

Costs of sales decreased by $4.0 million, or 9%, in the six months ended June 30, 2024 to $39.1 million from $43.1 million in the six months ended June 30, 2023. The decrease in costs of sales was driven by a $2.1 million decrease in costs of service sales and a $1.9 million decrease in costs of product sales. As a percentage of net sales, costs of sales were 68% and 64% for the six months ended June 30, 2024 and 2023, respectively.

For the six months ended June 30, 2024, costs of service sales decreased by $2.1 million, or 7%, to $29.5 million from $31.6 million for the six months ended June 30, 2023, primarily due to a $4.1 million decrease in VSAT Broadband airtime costs of service sales, partially offset by a $1.8 million increase in Starlink airtime costs of service sales. As a percentage of service sales, costs of service sales were 59% and 55% for the six months ended June 30, 2024 and 2023, respectively.

For the six months ended June 30, 2024, costs of product sales decreased by $1.9 million, or 17%, to $9.6 million from $11.5 million in the six months ended June 30, 2023, primarily due to a $1.4 million decrease in various manufacturing and other unabsorbed expenses, which primarily consists of labor, purchase price variance, excess and obsolescence write down, absorption and severance costs, a $1.4 million decrease in VSAT Broadband cost of product sales, a $1.1 million decrease in TracVision cost of product sales and a $0.3 million decrease in accessory cost of product sales, partially offset by a $2.4 million increase in Starlink cost of product sales. As a percentage of product sales, costs of product sales were 117% and 113% for the six months ended June 30, 2024 and 2023, respectively. Cost of product sales increased as a percentage of product sales primarily due to lower product sales volume, as well as the under-utilization of the factory and severance costs for manufacturing employees, partially offset by the improved purchase price variance.

Operating Expenses

Research and development expense for the six months ended June 30, 2024 increased by $0.4 million, or 8%, to $5.4 million from $5.0 million for the six months ended June 30, 2023. The increase in research and development expense resulted primarily from a $0.7 million increase in salaries, benefits and taxes, which was driven by $1.1 million in costs related to the reduction in our workforce beginning in February 2024. As a percentage of net sales, research and development expense was 9% and 7% for the six months ended June 30, 2024 and 2023, respectively.

Sales, marketing and support expense for the six months ended June 30, 2024 decreased by $0.1 million, or 1%, to $10.7 million from $10.8 million for the six months ended June 30, 2023. The decrease in sales, marketing and support expense resulted primarily from a $0.2 million decrease in facilities expenses, a $0.2 million decrease in external commissions and a $0.2 million decrease in marketing expenses. These decreases were partially offset by $0.4 million in costs related to the reduction in our workforce beginning in February 2024. As a percentage of net sales, sales, marketing and support expense was 19% and 16% for the six months ended June 30, 2024 and 2023, respectively.

General and administrative expense for the six months ended June 30, 2024 increased by $0.7 million, or 7%, to $9.4 million from $8.8 million for the six months ended June 30, 2023. The increase in general and administrative expense resulted primarily from a $1.1 million increase in salaries, benefits and taxes, which was driven by $0.9 million in costs related to the reduction in our workforce beginning in February 2024, and a $0.7 million reduction in reimbursements made by EMCORE for expenses incurred under the transition services agreement relating to the sale of the inertial navigation business in August 2022. Partially offsetting these items was a $1.0 million decrease in professional fees, related to a decrease in legal fees, as well as additional accounting and consulting costs incurred during the six months ended June 30, 2023 to prepare our 2022 annual filings. Lastly, there was a $0.3 million decrease in software license and maintenance fees. As a percentage of net sales, general and administrative expense was 16% and 13% for the six months ended June 30, 2024 and 2023, respectively.

Interest and Other Expense, Net

Interest income increased by $0.1 million to $1.8 million for the six months ended June 30, 2024 from $1.7 million for the six months ended June 30, 2023. Of the current period interest income of $1.8 million, $1.5 million is attributable to interest earned on cash and cash equivalents, and $0.2 million was attributable to interest from lease receivables. Other expense, net increased by $0.1 million to $0.6 million for the six months ended June 30, 2024 from other expense, net $0.5 million for the six months ended June 30, 2023.

Income Tax Expense

Income tax expense for each of the six months ended June 30, 2024 and 2023 was $0.1 million and related to taxes on income earned in foreign jurisdictions.

Liquidity and Capital Resources

Our primary liquidity needs have been to fund general business requirements, including working capital requirements and capital expenditures. In recent years, we have funded our operations primarily from the sale of two businesses in 2022, the sale of a business in 2019, a PPP loan, cash flows from operations, bank financings and proceeds received from exercises of stock options and the issuance of stock.

On August 9, 2022, we sold our inertial navigation business to EMCORE Corporation for net proceeds of $54.9 million, less specified deductions.

As of June 30, 2024, we had $49.3 million in cash, cash equivalents, and marketable securities, of which $3.3 million in cash and cash equivalents was held in local currencies by our foreign subsidiaries. Our foreign subsidiaries held no marketable securities as of June 30, 2024. As of June 30, 2024, we had $93.4 million in working capital.

Based upon our current working capital position, current operating plans and expected business conditions, we expect to have sufficient funds, through at least twelve months from the date that this report is filed with the SEC, to fund our short-term and long-term working capital requirements, including capital expenditures and contractual obligations. Our funding plans for our working capital needs and other commitments may be adversely impacted if our underlying assumptions regarding our anticipated revenues and expenses are not realized. If our operating results fail to meet our expectations, we could be required to seek additional funding through public or private financings or other arrangements. In that event, adequate funds may not be available when needed or may be available only on terms which could have a negative impact on our business and results of operations. In addition, if we raise funds by issuing equity securities, our stockholders may experience dilution.

Net cash used in operations was $15.5 million for the six months ended June 30, 2024 compared to net cash used in operations of $3.2 million for the six months ended June 30, 2023. The $12.3 million increase in net cash used in operations was primarily the result of a $15.6 million increase in cash outflows relating to prepaid expenses and other current assets, a $6.7 million increase in net loss, a $2.3 million decrease in cash inflows relating to accounts receivable, a $2.2 million increase in cash outflows relating to inventories, and a $0.4 million decrease in cash inflows relating to deferred revenue, partially offset by a $13.1 million decrease in cash outflows related to accounts payable and a $1.7 million increase in non-cash items.

Net cash provided by investing activities was $14.4 million for the six months ended June 30, 2024 compared to net cash used in investing activities of $6.0 million for the six months ended June 30, 2023. The $20.5 million change in net cash provided by investing activities was primarily the result of a $20.8 million decrease in net investment in marketable securities, partially offset by a $0.4 million increase in capital expenditures.

Net cash provided by financing activities was $0.1 million for the six months ended June 30, 2024 compared to net cash provided by financing activities of $2.1 million for the six months ended June 30, 2023. The $2.0 million decrease in net cash provided by financing activities is primarily attributable to a $2.3 million decrease in cash inflows relating to proceeds from the exercise of stock options and purchases under our employee stock purchase plan, partially offset by a $0.2 million decrease in cash outflows related to the repurchase of common stock to satisfy specific tax withholding obligations arising from accelerated vesting of executive stock grants in 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2024, the end of the period covered by this interim report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2024.

Evaluation of Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated changes in our internal control over financial reporting that occurred during the second quarter of 2024. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the second quarter of 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Important Considerations

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors in evaluating our business. If any of these risks, or other risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition and results of operations could be adversely affected. If that happens, the market price of our common stock could decline.

Risks related to our financial performance

We have a history of losses, and achieving sustained profitability may take longer than we anticipate or may not be achievable.

We recorded substantial losses from continuing operations in the first half of 2024 and in each of the last four fiscal years (notwithstanding the income we recognized in 2022 from the sale of the inertial navigation business and in 2021 from the forgiveness of the PPP Loan). Although our continuing operations were profitable in the fourth quarter of 2022 and second quarter of 2023, we may continue to incur losses as we face increasingly stiff competition. Our recent restructuring, workforce reduction and other cost-reduction measures may be insufficient to offset recent and accelerating reductions in our revenues. Recent inflation in the prices of goods and services, including wages, has also hampered our ability to improve profitability. In order to maintain and improve our competitive position, generate revenue and achieve sustained profitability, we must overcome recent reductions in our airtime subscriber base, reduce our bandwidth costs, and continue to introduce new and improved solutions. Our inability to accomplish any of these goals could have a material adverse effect on our revenues, profitability and cash flow, and we cannot assure you when, or whether, we will regain sustained profitability.

Our losses may increase if we are unable to effectively adapt to changes in our business and industry.

The traditional geosynchronous satellite communications industry is experiencing significant disruption arising from customers' rapid transition to less expensive LEO services, including Starlink, as well as increased reliance on other forms of data transmission, including Wi-Fi and cellular data services. Like others in our industry, we are experiencing reduced demand for our traditional satellite communications services and products, which we expect will continue. Although we are adapting to this transition by becoming an authorized reseller of Starlink, OneWeb and cellular data services and related products, there can be no assurance that we will generate the same level of revenue or gross margin from these sources that we derived from sales of VSAT airtime and related products. Moreover, our VSAT services require a separate infrastructure, which generates certain costs that are relatively fixed for a period of time. As customers transition away from VSAT services, our remaining VSAT services become less profitable and may eventually become insufficiently profitable to continue. If we are unable to efficiently operate both VSAT and LEO services and cost-effectively manage the ongoing transition to the latter, the expenses we incur may exceed associated revenues and thereby increase our losses.

Fluctuations in our quarterly net sales and results of operations could depress the market price of our common stock.

Our quarterly net sales and results of operations could continue to vary significantly for various reasons, many of which are outside our control. For example, service sales declined 14% in the second quarter of 2024 compared to the second quarter of 2023, and product sales declined 48% in the fourth quarter of 2023 compared to the fourth quarter of 2022. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. Our net sales or results of operations in a quarter may fall below the expectations of securities analysts or investors. If this occurs, the market price of our common stock could fall significantly. Our results of operations can fluctuate for many reasons, including the impact of competition and resulting changes in demand for our products and services; delays in order fulfillment, including as a result of shortages of components and raw materials; the mix of services and products we sell, including the mix of fixed rate and metered contracts for airtime services; our ability to manufacture, test and deliver products in a timely and cost-effective manner; the timing of new service and product introductions by us or our competitors; the scope and success of our investments in research and development; expenses incurred in pursuing acquisitions and investments; expenses incurred in expanding, maintaining, or improving our global HTS network; market and competitive pricing pressures; unanticipated charges or expenses, such as the aggregate $6.0 million impairment charges to goodwill and long-lived assets we recorded in the third quarter of 2023; the $5.2 million charge related to the inventory write-down, the $3.6 million provision for excess purchase order obligations and the $2.1 million charge for the discontinuation of a project for implementing a new manufacturing-centric accounting system that we recorded in the fourth quarter of 2023; expenses incurred in responding to stockholder activism; general economic climate; seasonality of pleasure boat and recreational vehicle usage; and the impact of supply chain disruptions.

A large portion of our expenses, including expenses for network infrastructure, facilities, equipment, and personnel, are relatively fixed. If our net sales continue to decline, our operating margins will also likely decline. Any failure to achieve anticipated net sales could therefore significantly harm our operating results.

A material increase in sales of third-party airtime services and products could reduce our gross margins and our profitability.

The gross margin percentage from our VSAT airtime services in most cases significantly exceeds the gross margin percentage from other third-party products and airtime services. To the extent that the mix of airtime services we sell shifts away from VSAT services, our gross profit dollars may decline, perhaps materially, if we are unable to significantly increase revenue on non-VSAT airtime services, which may reduce our profitability.

Risks related to our operations

Our planned transition to reliance on third-party hardware products may be unsuccessful.

In February 2024, we announced a staged wind-down of our product manufacturing operations, which was driven by reduced demand for our hardware products in the face of intensifying competition. We plan to discontinue our capital-intensive manufacturing activities by the end of 2025 and concentrate instead on growing sales of our multi-orbit, multi-channel, integrated communications solutions, including a transition to rely increasingly, and eventually exclusively, on third-party hardware compatible with our solutions. This multi-year strategy entails significant risks, including the loss of competitive differentiation as a leading manufacturer of award-winning products, the potentially irreversible loss of manufacturing expertise and know-how, increased dependence on third-party manufacturers and suppliers, the loss of control over technological innovations and improvements, significantly lower profit margins on third-party product resales, potential technological incompatibility with third-party hardware, potential additional significant provisions for excess and obsolete inventory and other charges, unanticipated expenses, and increased competition for service customers from product manufacturers. If we were to experience a resurgence in demand for our current products, we may be unable to restart internal production or to engage a third party to reliably manufacture and deliver them on time and at an affordable cost. Accordingly, this strategic transition entails meaningful execution risk, particularly in light of our recently announced reduction-in-force and the resulting loss of experienced employees. The failure to implement a successful transition to a new business model based upon third-party hardware would have a material adverse effect on our business, revenues and results of operations.

Our future success will depend in part on the services of our executive officers and key employees.

The Company's future success depends to a significant degree on the skills and efforts of our executive officers and key employees. Our United States based executive officers and key employees are at-will employees, competition is intense for senior management, and they could terminate their employment with us at any time. We do not maintain key-person life insurance on any of our personnel. Accordingly, the loss of one or more of our executive officers or key employees could have a material adverse effect on our business.

If we cannot effectively manage changes in our business and continue to attract and retain skilled personnel, our business may suffer.

If we cannot adjust expenses in response to changes in our operations, our results of operations may be harmed. For example, the relatively fixed costs associated with our manufacturing operations prevented us from reducing those costs quickly in response to recent, rapid reductions in demand, resulting in negative product margins. To manage changes in our business effectively, we must, among other things, successfully complete the wind-down of our manufacturing operations, including correctly estimating the number of units to produce; secure appropriate satellite capacity to match demand for airtime services; manage our inventory more effectively, particularly in light of the substantial provision for excess and obsolete inventory that we recorded in the fourth quarter of 2023; effectively manage our working capital; ensure robust cybersecurity protection of Company and customer data and systems; and ensure that our procedures and internal controls are revised and updated to remain effective for our smaller workforce and the reduced size and scale of our business operations.

We are highly dependent on qualified personnel at all levels, including our senior management team and other key technical, operational, managerial and sales and marketing personnel, each of whom would be difficult to replace. Our recent reduction-in-force increased our dependence on continuing personnel. If we fail to retain and attract the necessary personnel, we may be unable to achieve our business objectives and may lose our competitive position, which could lead to a significant decline in net sales. The current job market for personnel is very competitive, resulting in increased compensation. We face challenges retaining our personnel and attracting new personnel to fulfill our unmet needs, particularly in light of our recent reductions-in-force. Replacing key personnel may be difficult and may take an extended period of time because of the limited number of individuals with the skills and experience to execute our business strategy. We may be unable to identify or employ qualified personnel for any such position on acceptable terms, if at all. We may also need to pay higher compensation than we expect, which would make it more difficult to achieve our goal of sustained profitability.

Future strategic activities could disrupt our business and affect our results of operations.

In response to increasing competitive pressure, we may take additional measures intended to increase profitability and align our business more closely with our current strategic and financial objectives, including engagement with new suppliers, further modifications to our manufacturing arrangements and other cost-reduction efforts. For example, in February 2024 we announced a staged wind-down of our manufacturing operations and a related reduction-in-force of 75 employees, as a result of which we have incurred or expect to incur aggregate charges of approximately $14.3 million, consisting of a $5.2 million non-cash charge related to the inventory write-down, a $3.6 million provision for excess purchase order obligations, approximately $3.4 million of severance charges, and a $2.1 million charge for the discontinuation of a project for implementing a new manufacturing-centric accounting system. We may also choose to dispose of assets or make strategic divestitures, such as the sale of our inertial navigation business in August 2022. These efforts may not succeed in improving profitability. Any of these changes could be disruptive to our business and could result in significant expense, including losses on any asset disposition or divestiture, accounting charges for any inventory or technology-related write-offs or any workforce reduction costs, such as those described elsewhere in risk factors. We could incur significant transaction costs, including for potential transactions that do not proceed. Substantial expense or charges resulting from restructuring activities, dispositions of assets or divestitures could adversely affect our results of operations and use of cash in the periods in which we take these actions. Any disposition of assets or divestiture could also result in the retention of liabilities and expenses that are not assumed by the buyer or the loss of operating income from the divested assets or operations, either of which could negatively impact profitability after any divestiture.

We must generate a certain level of service sales in order to maintain or improve our service gross margins.

As a result of our global satellite network infrastructure, we incur certain costs that generally do not vary directly in proportion to the volume of service sales, and we have limited ability to reduce these fixed costs. The cost of our HTS network has increased significantly each year as we have expanded our network to accommodate additional subscriber demand and/or coverage areas. If service sales, including through our AgilePlans subscription model, continue to decline, our service gross margins will also decline. The failure to improve our global HTS service gross margins and unit or subscriber sales would have a material adverse effect on our overall profitability.

During the second quarter of 2024, we prepaid $17.0 million for access to a large block of Starlink Mobile Priority data at favorable rates. If the volume of services sales is not significant enough to consume this pooled data within the applicable period, our gross margins will suffer. While we currently expect to consume all of this pooled data within the contract period, if at any time we were to determine that it is more likely than not that we would not consume a portion of the pooled data, we may expense the applicable portion at the time of each such determination.

Our ability to compete in the maritime airtime services market will be impaired if we are unable to provide sufficient service capacity to meet customer demand.

We currently offer our global HTS VSAT service in the Americas, Europe, the Middle East, Africa, Asia-Pacific, Indian, and Australian and New Zealand waters. We may need to expand capacity in existing coverage areas to support our subscriber base. If we are unable to reach economical agreements with third-party satellite providers to support our global satellite services and its technology or if transponder capacity is unavailable to meet growing demand in a given region, our ability to provide airtime services will be at risk and could reduce the attractiveness of our products and services.

Our results of operations are adversely affected by unseasonably cold weather, prolonged winter conditions, disasters or similar events.

Our leisure marine business is highly seasonal, and seasonality can also impact our commercial marine business. Historically, we have generated the majority of our leisure marine product revenues during the first and second quarters of each year, and these revenues typically decline in the third and fourth quarters of each year, compared to the first two quarters. Temporary suspensions of our airtime services typically increase in the fourth and first quarters of each year as boats are placed out of service during winter months. Our leisure marine business is also significantly affected by the weather. Unseasonably cool weather, prolonged winter conditions, hurricanes, unusual amounts of rain, and natural and other disasters may decrease boating, which could reduce our revenues. Specifically, we may encounter a decrease in new airtime activations as well as an increase in the number of cancellations or temporary suspensions of our airtime service.

We are winding down our single manufacturing facility, and any significant disruption to this facility in the near term will impair our ability to deliver our products.

We manufacture all of our products at our manufacturing facility in Middletown, Rhode Island, and we have begun to wind down our manufacturing operations at that facility. We currently plan to discontinue the majority of our capital-intensive manufacturing activities by the end of 2025. Some of our production processes are complex, and we may be unable to respond rapidly to the loss of the use of our production facility. For example, we use some specialized equipment that may take time to replace if it is damaged or becomes unusable for any reason. In that event, shipments would be delayed, which could result in customer or dealer dissatisfaction, loss of sales and damage to our reputation. In light of the wind-down, we may elect to halt production rather than to incur significant expenses to repair or replace manufacturing equipment, which may limit our production and accelerate the loss of product sales.

Acquisitions and strategic relationships may disrupt our operations or adversely affect our results.

We evaluate opportunities to acquire other businesses and pursue other strategic relationships as they arise. The expenses we incur evaluating and pursuing acquisitions and strategic relationships could have a material adverse effect on our results of operations. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the strategic, financial, operational and other benefits we anticipate, and any acquisition or strategic relationship may increase our operating expenses. Further, our approach to acquisitions and strategic relationships may involve a number of special financial and business risks, such as entry into new and unfamiliar lines of business or markets, which may present challenges or risks that we did not anticipate; entry into new or unfamiliar geographic regions, including exposure to additional tax and regulatory regimes; increased expenses associated with the amortization of acquired intangible assets; increased exposure to fluctuations in foreign currency exchange rates; charges related to any abandoned acquisition; diversion of our management’s time, attention, and resources; loss of key personnel; increased costs to improve or coordinate managerial, operational, financial, and administrative systems, including internal control over financial reporting; dilutive issuances of equity securities; the assumption of legal liabilities; and losses arising from impairment charges associated with goodwill or intangible assets.

Risks related to our industry

Increasingly intense competition may limit our ability to sell our products and services.

The mobile connectivity market is intensely competitive, and we expect the intensity of competition to continue to increase in the future. We may not be able to compete successfully against current and future competitors, which would impair our ability to sell our products and services. We are facing significant competition from companies that seek to compete primarily on price as well as new, emerging NGSO services, such as Starlink and OneWeb, as well as future LEO services such as Kuiper, Telesat, and others. Competition from these sources increased dramatically in 2023 and has continued to intensify in 2024, leading to material reductions in our VSAT subscriber base. These companies may continue to implement price reductions and discounts for both products and services, which have required us to reduce our prices or offer discounts in an effort to prevent erosion of our market share. The majority of our customers have no long-term commitment and can switch providers without penalty. For example, AgilePlan customers are on month-to-month agreements, and our agreement with the U.S. Coast Guard, a significant government customer, is structured as an indefinite delivery/indefinite quantity contract. The U.S. Coast Guard has advised us that it intends to transition its primary satellite service relationship on the vessels we currently serve to Starlink, as a result of which we currently anticipate a material decline in revenue from the Coast Guard starting in the third or fourth quarter of 2024. Current and future competitors have greater financial resources than we do, enabling them to operate at lower margins to gain market share. We believe increased competition contributed to the decreases in both our service sales and our product sales in the six months ended June 30, 2024, including unit sales of our VSAT products, and we expect that this trend will continue in future periods.

Some of our VSAT competitors have already leveraged partnerships amongst themselves in order to capture larger combined market share. Further, some of the companies that we depend on to supply us with capacity on satellite communications networks may vertically integrate by introducing their own products and services to compete with ours, which might motivate them to stop providing satellite network capacity to us, or to make it available on less favorable terms.

The Starlink LEO service continues to adversely impact our business, particularly within the global leisure segment. A significant number of leisure customers have adopted Starlink systems for both two-way communications as well as streaming, which has impacted both our VSAT Broadband and TracVision businesses. Although our leisure business accounts for less than 15% of our total revenue, competition from Starlink has adversely impacted our commercial business as well, particularly our growth in that segment. While we did increase our subscriber count in the second quarter of 2024, in the third and fourth quarter of 2023 and the first quarter of 2024 the total number of our subscribers declined. If we are unable to sustain growth, it would have a material adverse effect on our revenue, profitability, and cash flow.

In the marine market for high-speed Internet, voice, fax, and data services, we have historically competed primarily with Inmarsat, Marlink, Speedcast, Viasat, and Network Innovations, along with smaller, single-hub regional services to deliver VSAT service. Additionally, we are facing meaningful competition from new NGSO networks such as SpaceX’s Starlink and OneWeb and an emerging group of smaller LEO-focused providers, such as Clarus and Elcome. We also face competition from providers of low-speed data services, which include Inmarsat and Iridium Satellite LLC. In the marine market for satellite TV equipment, we compete primarily with Intellian, Cobham SATCOM and Raymarine (Intellian-made). In the marine market for two-way communications equipment, we compete primarily with Intellian and Cobham SATCOM. In the market for land mobile satellite TV equipment, we compete primarily with King Controls and Winegard Company. In the markets for media content, the KVH Media Group competes primarily with Swank Motion Pictures, Baze Technology, and PressReader. Many of our competitors are well-established companies that have substantially greater financial, managerial, technical, marketing, personnel, and other resources than we do, which may help them to compete more effectively against us.

We depend on sole or limited source suppliers, and any disruption in supply could impair our ability to deliver products on time or at expected cost.

We obtain many products and key components for our products, including Starlink terminals, from third-party suppliers, and in some cases we use a single or a limited number of suppliers. Any interruption in supply could impair our ability to deliver the products we sell until we identify and qualify a new source of supply, which could take several weeks, months or longer and could increase our costs significantly. For example, the global chip shortage and supply chain constraints resulting from the COVID-19 pandemic adversely impacted our ability to deliver products in a timely manner and increased our cost of sales due to rising prices for materials. We may not be able to pass along any of these cost increases to our customers, and customers may not wait for products to become available. These disruptions in our supply chain could worsen, which could delay delivery of products and services and adversely affect our revenue and results of operations. Suppliers might change or discontinue products or key components, which could require us to modify our product designs or cease production or sales. In general, we do not have written long-term supply agreements with our suppliers but instead buy products and components through purchase orders, which expose us to potential price increases and termination of supply without notice or recourse. We generally do not carry significant inventories of products or components, which could magnify the impact of the loss of a supplier. If we must use a new source of supply, we could face unexpected manufacturing difficulties and loss of product performance or reliability. In addition, lead times for certain products or components can increase significantly due to imbalances in overall market supply and demand. This, in turn, could limit our ability to satisfy demand for the products we sell and could result in the cancellation of customer orders.

Changes in the competitive environment, customer demand, supply chain issues, and the transition to new products may require inventory write-downs.

From time to time, we have recorded significant inventory charges and/or inventory write-offs as a result of substantial declines in customer demand. For example, in 2023, we recorded a $5.2 million inventory write-down charge and a $3.6 million charge for excess purchase order obligations, both relating to the reduced demand for our hardware products, which has led to the staged wind-down of our manufacturing activities at our facility in Middletown, Rhode Island in 2024. Market or competitive changes, such as a continuation of the decline in demand for our TracVision products that we experienced in 2023, could lead to future charges for excess or obsolete inventory, especially if we are unable to appropriately adjust the supply of material from our vendors, as we were unable to do in 2023.

Risks related to our dependence on third parties and third-party technology

Our mobile satellite communications solutions currently depend on third-party satellite services, gateway teleports and terrestrial networks provided by third parties, and a disruption in those services could adversely affect sales.

Our mobile satellite communications solutions utilize third-party satellite services. We do not own the satellites that provide two-way satellite communications or the terrestrial networks that interconnect our facilities with the satellite teleports that communicate with the satellites. Intelsat and Sky Perfect-JSAT currently provide the satellite capacity to support our global high-throughput satellite (HTS) broadband service, our TracNet H-series and TracPhone V-HTS series products and third-party products compatible with our services. Vodafone currently provides the 5G/LTE services used by our TracNet H-series terminals and compatible third-party products to provide cellular service in 150+ countries. Starlink provides the data services for Starlink LEO services, while Eutelsat OneWeb will provide the data connectivity for OneWeb LEO service, which we currently anticipate providing for maritime use late in the third quarter of 2024. We rely on Inmarsat for satellite communications services for our FleetBroadband-compatible and FleetOne-compatible products. We also have an arrangement with Iridium for additional satellite communications services that we make available to our customers as a backup option to provide communications redundancy with our primary service offerings.

In addition, we have agreements with various teleports and Internet service providers around the globe to support our global HTS broadband service. The terrestrial fiber links that we use to connect with the Internet and to move our VoIP and data services between our facilities and the various satellite earth stations that support our services are provided to us through numerous service providers, some of which have contractual relationships with our satellite service providers and not directly with us.

We currently offer satellite television solutions compatible with the DIRECTV and DISH Network services in the United States, the Bell TV service in Canada, the Sky Mexico service in Mexico, the Sky UK service in the United Kingdom, Canal+ service in France and Movistar service in Spain, and other regional satellite TV services in other parts of the world.

We exercise little or no control over these third-party providers of satellite, teleport, and terrestrial network services, which increases our vulnerability to problems with the services and coverage they provide. Due to our reliance on these service providers, when problems occur, it may be difficult to identify the source of the problem. Service disruption or outages, regardless of whether they are caused by our service, the equipment or services of our third-party service providers, or our customers' or their equipment and systems, may result in loss of market acceptance of our service, and any necessary repairs or other remedial actions may cause us to incur significant costs and expenses. Any failure on the part of third-party service providers to achieve or maintain expected performance levels, stability, security, or adequate data service coverage in key regions could harm our relationships with our customers, result in claims for credits or damages, damage our reputation, significantly reduce customer demand for our solution and seriously harm our financial condition and operating results.

If customers become dissatisfied with the pricing, service, availability, programming or other aspects of any of these satellite services, or if any one or more of these services becomes unavailable for any reason, we could suffer a substantial decline in sales of the satellite products or services we offer. There may be no alternative satellite service provider available to us in a particular geographic area, and the modem or other technology our customers use may not be compatible with the technology of any alternative service provider that may be available. Even if available, delays caused by switching our systems to another service provider, if available, and qualifying this new service provider could materially harm our customer relationships, business, financial condition, and operating results. In addition, the unexpected failure of a satellite could disrupt the availability of programming and services, which could reduce the demand for, or customer satisfaction with, the products and services we offer.

We depend on cloud-based data services operated by third parties, and any disruption in the operation of these services could harm our business.

Some of our content services and business records are hosted by various cloud-based data services operated by third parties. Any failure or downtime in one of these services could affect a significant percentage of our customers. Although we control and have access to our servers and the components of our network that are located in our internal facilities and certain of our external data facilities, we do not control the operation of external facilities. The providers of our data management services have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if one or more of our data management service providers is acquired, closes, suffers financial difficulty or is unable to meet our growing capacity needs, we may be required to transfer our data to other services, and we may incur significant costs and service interruptions in connection with doing so, which could harm our reputation with our customers and adversely affect our revenues and results of operations.

Our media and entertainment business relies on licensing arrangements with content providers, and the loss of, or changes in, those arrangements could adversely affect our business.

We distribute premium news, television shows, sports, and movies to commercial customers in the maritime and hotel markets. We license this content from third parties on a non-exclusive basis without long-term license agreements. Any content provider could terminate our arrangements without notice or could adversely modify the terms of the arrangement, including price increases. Further, the licenses we obtain are limited in scope, and any violation of the terms of a license could expose us to liability for copyright infringement. We pay license fees based in part on the revenue we generate from sublicenses, and our licensors generally have the right to audit our records. Failure to pay required license fees could result in termination of our license rights, penalties and damages. The loss of content could adversely affect the attractiveness of our media and entertainment offerings, which could in turn adversely affect our revenues. Any increase in the cost of content could reduce the profitability of these offerings.

Cybersecurity breaches could disrupt our operations, expose us to liability, damage our reputation, and require us to incur significant costs or otherwise adversely affect our financial results.

We are highly dependent on information technology networks and systems, including the Internet and third-party systems, to securely process, transmit and store electronic information, including personal information of our customers. We also retain sensitive data, including intellectual property, proprietary business information, personally identifiable information, credit card information, and usage data of our employees and customers on our computer networks and those of third parties. Although we take certain protective measures and endeavor to modify them as we believe circumstances warrant, invasive technologies and techniques continue to evolve rapidly, and increasingly sophisticated hacking organizations are targeting business systems. As a result, the computer systems, software and networks that we use are vulnerable to disruption, shutdown, unauthorized access, misuse, erasure, alteration, employee error, phishing, computer viruses, ransomware or other malicious code, and other events that could have a material security impact. The protective measures on which we rely may be inadequate to prevent or detect all material cybersecurity breaches or determine the extent of any material breach, and there can be no assurance that material undetected breaches have not already occurred. If any material cybersecurity event were to occur, it could disrupt our operations, distract our management, cause us to lose existing customers and fail to attract new customers, as well as subject us to regulatory actions, litigation, fines, damage to our reputation or competitive position, or orders or decrees requiring us to modify our business practices, any of which could have a material adverse effect on our financial position, results of operations or cash flows.

Risks related to economic conditions and trade relations

Our revenues, results of operations and financial condition may be adversely impacted by economic turmoil, war, political instability, declines in consumer and enterprise spending.

Economic and political conditions in the geographic markets we serve have experienced significant turmoil over the last several years, including a potential global recession, slow economic activity, war and refugee crises in the Middle East and Europe, tight credit markets, inflation and deflation concerns, increased interest rates, low consumer confidence, limited capital spending, adverse business conditions, terrorist attacks, changes in government priorities, trade wars, anti-globalization movements, efforts to combat climate change, restrictions on commercial fishing, a government shutdown, gridlock from a divided Congress, and liquidity concerns. These factors vary in intensity by region. For example, the war in the Middle East has resulted in periodic disruptions to global shipping, which could intensify and result in significant delays in shipments of products or supplies, materially increased shipping costs and loss of revenues. We cannot predict the timing, duration, or ultimate impact of turmoil on our markets or our suppliers. We expect our business would be adversely impacted by any significant turmoil, to varying degrees and for varying amounts of time, in all our geographic markets.

Changes in U.S. trade policy, including changes to existing trade agreements and any resulting changes in international trade relations, may have a material adverse effect on us.

The U.S. may continue to alter its approach to international trade, which may impact existing bilateral or multi-lateral trade agreements and treaties with foreign countries. The U.S. has imposed tariffs on certain foreign goods and may increase tariffs or impose new ones, and certain foreign governments have retaliated and may continue to do so. We derive a majority of our revenues from international sales, which makes us especially vulnerable to increased tariffs. Changes in U.S. trade policy have created ongoing turmoil in international trade relations, and it is unclear what future actions governments will or will not take with respect to tariffs or other international trade agreements and policies. Ongoing or new trade wars or other governmental action related to tariffs or international trade agreements or policies could reduce demand for our products and services, increase our costs, reduce our profitability, adversely impact our supply chain or otherwise have a material adverse effect on our business and results of operations.

Changes in foreign currency exchange rates may negatively affect our financial condition and results of operations.

We face significant exposure to movements in exchange rates for foreign currencies, particularly the pound sterling and the euro. For example, during 2022, the U.S. dollar strengthened against certain foreign currencies, which adversely affected revenues reported in U.S. dollars and decreased the reported value of our assets in foreign countries. Conversely, the U.S. dollar weakened against certain foreign currencies during 2023. We also have intragroup receivables and liabilities, such as loans, that can generate significant foreign currency effects. Changes in exchange rates, particularly the U.S. dollar against the pound sterling, could lead to the recognition of unrealized foreign exchange losses.

Certain of our products and services are sold internationally in U.S. dollars; if the U.S. dollar strengthens, the relative cost of these products and services to customers located in foreign countries would increase, which could adversely affect export sales. In addition, most of our financial obligations must be satisfied in U.S. dollars. Our exposures to changes in foreign currency exchange rates may change over time as our business practices evolve and could result in increased costs or reduced revenue and could adversely affect our cash flow. Changes in the relative values of currencies occur regularly and may have a significant impact on our operating results. We cannot predict with any certainty changes in foreign currency exchange rates or the degree to which we can cost-effectively mitigate this exposure.

Risks related to intellectual property and technological innovation

Our research and development efforts may be unsuccessful. If we are unable to improve our existing solutions and develop new, innovative solutions, our sales and market share may decline.

The market for mobile connectivity solutions is characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards. For example, we are facing competition from new LEO networks such as SpaceX's Starlink and OneWeb. If we fail to make innovations in our existing products and services and reduce the costs of our products and services, our market share will likely decline. Products or services using new technologies, or emerging industry standards, could render our products and services obsolete. If our competitors successfully introduce new or enhanced products or services that outperform our products or services, or are perceived as doing so, we may be unable to compete successfully in the markets affected by these changes.

Research and development is inherently complex and uncertain, and our current and anticipated research and development projects may not achieve the results we seek. The financial resources that we can devote to our research and development efforts may be insufficient to achieve our goals. Our efforts may not result in any viable products or may result in products whose performance, features, price or availability may not be attractive to customers or that we cannot manufacture and sell profitably.

Our business may suffer if we cannot protect our proprietary technology.

Our ability to compete depends in part upon our patents, copyrights, source code, and other proprietary technology. The steps we have taken to protect our technology may be inadequate to prevent others from using what we regard as our technology to compete with us. Our patents will eventually expire and could be challenged, invalidated or circumvented. Customers or others with access to our proprietary or licensed media content could copy that content without permission or otherwise violate the terms of our customer agreements, which would adversely affect our revenues and could impair our relationships with content providers. In addition, the laws of some foreign countries do not protect our proprietary technology to the same extent as the laws of the United States, which could increase the likelihood of misappropriation. Any misappropriation of our technology could seriously harm our competitive position, which could lead to a substantial reduction in net sales. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome, disruptive and expensive. The proceedings could distract the attention of management, and we may not prevail.

Claims by others that we infringe their intellectual property rights could harm our business and financial condition.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. We cannot be certain that our products and services do not and will not infringe issued patents, patents that may be issued in the future, or other intellectual property rights of others.

Risks related to government regulation

Our international operations complicate our business and require us to comply with multiple regulatory environments.

Historically, sales to customers outside the United States have accounted for an increasingly significant portion of our net sales. We derived 72%, 68% and 63% of our revenues from continuing operations in the six months ended June 30, 2024 and the years ended December 31, 2023 and 2022, respectively, from sales to these foreign customers. We have foreign offices in Denmark, the United Kingdom, Singapore, Japan, Norway and the Philippines, as well as a subsidiary in Brazil that manages local sales. Nonetheless, substantially all of our operations and a significant number of our personnel are located in the United States. Our limited international operations may impair our ability to compete successfully in international markets and to meet the service and support needs of our customers in countries where we have little to no infrastructure. Risks associated with our international business activities may increase our costs and require significant management attention. These risks include restrictions on international travel, which may restrict our ability to grow and service our business; international shipping delays; tariffs; sanctions or other trade restrictions that preclude or restrict doing business with particular foreign governments, companies or individuals; technical challenges we may face in adapting our solutions to function with different satellite services and technology in use in various regions around the world; satisfaction of international regulatory requirements and delays and costs associated with procurement of any necessary licenses or permits; the potential unavailability of content licenses covering international waters and foreign locations; increased costs of providing customer support in multiple languages; increased costs of managing operations that are international in scope; potentially adverse tax consequences, including restrictions on the repatriation of earnings; protectionist laws and business practices that favor local competitors, which could slow our growth in international markets; potentially longer sales cycles; potentially longer accounts receivable payment cycles and difficulties in collecting accounts receivable; and economic and political instability in some international markets.

We could incur additional legal compliance costs associated with our international operations and could become subject to legal penalties if we do not comply with certain regulations.

Our international operations subject us to a number of legal requirements, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and the customs, export, trade sanctions and anti-boycott laws of the United States, including those administered by the U.S. Customs and Border Protection, the Bureau of Industry and Security, the Department of Commerce, the Department of State, and the Office of Foreign Assets Control of the Treasury Department, as well as those of other nations. In addition, many of the countries where our customers use our products and services have licensing and regulatory requirements for the importation and use of satellite communications and reception equipment, including the use of such equipment in territorial waters, the transmission of satellite signals on certain radio frequencies, the transmission of VoIP services using such equipment and the reception of certain video programming services. These laws and regulations are continually changing, making compliance complex. We incur significant costs identifying and maintaining compliance with applicable licensing and regulatory requirements. Our training and compliance programs and our other internal control policies may be insufficient to protect us from acts committed by our employees, agents or third-party contractors. Any violation of these requirements by us or our employees, agents or third-party contractors may subject us to significant criminal and civil liability. Further, many of our commercial suppliers of satellite transmission capacity impose contractual obligations on us that permit them to suspend or terminate their provision of satellite services to support our network if we fail to maintain compliance with these laws and regulations. The loss of access to satellite capacity would materially and adversely affect our maritime communications service.

We are subject to FCC rules and regulations, and any non-compliance could subject us to FCC enforcement actions, fines, loss of licenses and possibly restrictions on our ability to operate or offer certain of our services.

The satellite communications industry in the United States is regulated by the Federal Communications Commission (FCC), and we are subject to FCC regulations relating to privacy, contributions to the Universal Service Fund, or USF, and other requirements. If we do not comply with FCC regulations, we could face enforcement actions, substantial fines, penalties, loss of licenses and possibly restrictions on our ability to operate or offer services. Any enforcement action by the FCC, which may be a public process, could hurt our reputation, impair our ability to sell our services to customers and harm our business and results of operations.

Privacy concerns and domestic or foreign laws and regulations may reduce demand for our services, increase our costs and harm our business.

Our company and our customers can use our services to collect, use and store personal, confidential and sensitive information regarding the content and manner of usage of our services by them, their employees and maritime crews. Federal, state and foreign governments have adopted and are proposing new and more stringent laws and regulations regarding the collection, use, storage and transfer of information, such as the European Union's General Data Protection Regulation ("GDPR"). The costs of compliance with, and other burdens imposed by, such laws and regulations may limit the use and adoption of our services and reduce overall demand. Non-compliance with these laws and regulations could lead to significant remediation expenses, fines, penalties or other liabilities, such as orders or consent decrees that require modifications to our privacy practices, as well as reputational damage or third-party lawsuits seeking damages or other relief. For example, the GDPR imposes a strict data protection compliance regime with penalties of up to the greater of 2%-4% of worldwide revenue or €11-22 million.

Domestic and international legislative and regulatory initiatives may harm our ability, and the ability of our customers, to process, handle, store, use and transmit information, which could reduce demand for our services, increase our costs and force us to change our business practices. These laws and regulations are still evolving, are likely to be in flux and may be subject to uncertain interpretation for the foreseeable future. Our business also could be harmed if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent from country to country or inconsistent with our current policies and practices or those of our customers.

Risks related to owning our common stock

The market price of our common stock may be volatile.

Our stock price has historically been volatile. During the period from January 1, 2018 to June 30, 2024, the trading price of our common stock ranged from $4.30 to $15.29. Many factors may cause our stock price to fluctuate, including variations in quarterly results; the introduction of new products and services by us or our competitors; adverse business developments; reductions-in-force; changes in estimates of our performance or recommendations by securities analysts; the hiring or departure of key personnel; acquisitions or strategic alliances involving us or our competitors; market conditions in our industry; and the global macroeconomic and geopolitical environment. Broad market fluctuations may adversely affect our stock price. When the market price of a company's stock drops significantly, stockholders often institute securities litigation against that company. Any such litigation could cause us to incur significant expenses defending against the claim, divert the time and attention of our management and result in significant damages.

ITEM 6. EXHIBITS

Exhibits:

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference		
			Form	Filing Date	Exhibit No.
3.1	Amended and Restated Certificate of Incorporation, as amended		10-Q	August 6, 2010	3.1
3.2	Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock of KVH Industries, Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock		8-A	August 19, 2022	3.1
3.3	Amended and Restated Bylaws		10-Q	November 1, 2017	3.2
4.1	Specimen certificate for the common stock		10-K	March 2, 2018	4.1
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer	X			
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer	X			
32.1	Section 1350 certification of principal executive officer and principal financial officer	X			
101	The following financial information from KVH Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets (unaudited), (ii) the Consolidated Statements of Operations (unaudited), (iii) the Consolidated Statements of Comprehensive (Loss) Income (unaudited), (iv) the Consolidated Statements of Stockholders' Equity (unaudited), (v) the Consolidated Statements of Cash Flows (unaudited), and (vi) the Notes to Consolidated Interim Financial Statements (unaudited).	X			
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	X			

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 1, 2024

KVH Industries, Inc.

By: /s/ ANTHONY F. PIKE

Anthony F. Pike
(Duly Authorized Officer and Chief Financial Officer)

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Rule 13a-14 or 15d-14 under the Securities Exchange Act of 1934 as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Brent C. Bruun, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KVH Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2024

/s/ Brent C. Bruun

Brent C. Bruun

President, Chief Executive Officer and Director

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant to Rule 13a-14 or 15d-14 under the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Anthony F. Pike, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KVH Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2024

/s/ Anthony F. Pike

Anthony F. Pike

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned President, Chief Executive Officer and Director, and Chief Financial Officer of the Company, certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	/s/ Brent C. Bruun		/s/ Anthony F. Pike
	Brent C. Bruun		Anthony F. Pike
	President, Chief Executive Officer and Director		Chief Financial Officer
Date:	August 1, 2024	Date:	August 1, 2024