

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2021**  
**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, \$0.01 par value per share | KVHI              | (Nasdaq Global Select Market)<br>The NASDAQ Stock Market LLC |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes**  **No**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes**  **No**

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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2021, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$213,177,143 based on the closing sale price of \$12.30 per share as reported on the Nasdaq Global Select Market. Shares of common stock held by executive officers and directors of the registrant and their affiliates have been excluded from this calculation because such persons may be deemed affiliates. As of March 1, 2022, the registrant had 18,876,665 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to its 2022 Annual Meeting of Stockholders are incorporated herein by reference in Part III.

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# PART I

## ITEM 1. Business

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### Cautionary Statement Regarding Forward-Looking Information

In addition to historical facts, this annual report contains forward-looking statements. Forward-looking statements are merely our current predictions of future events. These statements are inherently uncertain, and actual events could differ materially from our predictions. Important factors that could cause actual events to vary from our predictions include those discussed in this annual report under the headings “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Item 1A. Risk Factors.” We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to review carefully the risk factors described in this annual report and in the other documents that we file with the Securities and Exchange Commission.

### Additional Information Available

Our principal Internet address is [www.kvh.com](http://www.kvh.com). Our website provides a hyperlink to a third-party website through which our annual, quarterly, and current reports, as well as amendments to those reports, are available free of charge. We believe these reports are made available as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. We do not provide any information regarding our SEC filings directly to the third-party website, and we do not check its accuracy or completeness. The SEC maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

### Introduction

We are a leading provider of innovative, technology-driven connectivity and navigation solutions to maritime, defense and other commercial customers globally. Through our mobile connectivity business, we provide global high-speed Internet and voice 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 and leisure customers in the maritime, hotel, and retail markets. Our inertial navigation business provides high-performance navigational sensors and integrated inertial navigation systems for defense and commercial inertial navigation applications. Our reporting segments are as follows:

- the mobile connectivity segment, and
- the inertial navigation segment

Through these segments, we manufacture and sell our solutions in a number of major geographic areas, including internationally. We generate revenues from various international locations, primarily consisting of Canada, Europe (both inside and outside the European Union), Africa, Asia/Pacific, and the Middle East.

We are headquartered in Middletown, Rhode Island, with active operations in Denmark, the State of Illinois, the United Kingdom and Singapore. KVH is a Delaware corporation formed in 1985.

## Our Business Segments

| <b>Segment</b>      | <b>Primary Products</b>  | <b>Major Brands</b>   | <b>2021 Net Sales <sup>(1)</sup></b> |
|---------------------|--|---|--------------------------------------|
| Mobile connectivity | Satellite television and internet solutions and media and content delivery solutions | TracVision®<br>TracPhone®<br>CommBox™<br>mini-VSAT Broadband™<br>IP-MobileCast™<br>KVH OneCare®<br>NEWSlink™<br>AgilePlans® | \$ 133,911                           |
| Inertial navigation | Digital compass and fiber optic gyro-based navigation and guidance systems           | TACNAV®   | 37,856                               |
| <b>Total</b>        |  |   | <b>\$ 171,767</b>                    |

(1) Amounts in thousands

### ***Mobile Connectivity Segment***

Through our mobile connectivity segment, we provide integrated, end-to-end hardware, software and services that support our customers' need for access to Internet, voice and entertainment services. On the hardware side of this business, we primarily manufacture and distribute a comprehensive family of mobile satellite antenna products and services that provide access to the Internet and voice services outside the range of cellular phone service. Product sales within the mobile connectivity segment accounted for 17% and 18% of our consolidated net sales for 2021 and 2020, respectively. On the services side of this business, sales of mini-VSAT Broadband airtime service accounted for 54% and 51% of our consolidated net sales for 2021 and 2020, respectively. Sales of content services within the mobile connectivity segment accounted for 4% and 5% of our consolidated net sales for 2021 and 2020, respectively.

In the global maritime market, we believe that there is significant demand for mobile access to television, the Internet, voice services, entertainment content, and operational services such as navigation chart updates, weather services, and voyage optimization. For both maritime and onshore customers that want to access live television while on the move, we offer a comprehensive family of mobile satellite antenna products marketed under the TracVision brand. For access to the Internet and voice services while on the move, which we refer to collectively as our airtime services, we offer a family of mobile satellite antenna products and communication services marketed under the brands mini-VSAT Broadband and TracPhone, respectively. The network infrastructure that we have developed to support our airtime services also supports the delivery of other value-added services such as our IP-MobileCast content delivery service for both entertainment and operational needs.

Our mobile satellite antenna products use sophisticated robotics, stabilization and control software, sensing technologies, transceiver integration, and advanced antenna designs to automatically search for, identify and point directly at the optimal television and communications satellite while the vehicle or vessel is in motion. Our antennas use gyroscopes and inclinometers to measure the movement of an antenna platform in relation to the earth in three different axes. Microprocessors and our proprietary stabilization and control software use that data to compute the antenna movement necessary for the antenna's motors to point the antenna properly and maintain contact with the satellite. If an obstruction temporarily blocks the satellite signal, our products continue to track the satellite's location according to the movement of the antenna platform in order to carry out automatic, rapid reacquisition of the signal when a direct line of sight to the satellite is restored.

Our certified support network offers our TracVision and TracPhone customers an international network of skilled technical dealers and support centers in many locations where our customers are likely to travel. We have selected technical dealers based on their technical expertise, professionalism, and commitment to quality, and regularly provide them with extensive training in the sale, installation and support of our products.

## *Maritime*

In the marine market, we offer a range of mobile satellite TV, internet access, and communications products.

*Satellite Internet and Phone.* Our mini-VSAT Broadband products and services provide an end-to-end solution for offshore mobile connectivity. This unified C/Ku-band Broadband service enables us to offer commercial, leisure, and government customers an integrated hardware and service solution for mobile communications and seamless region-to-region roaming. We design and manufacture the onboard TracPhone terminals, own hub equipment installed in leased earth stations, lease the satellite capacity, manage the network through third-party service providers, and provide 24/7/365 after-sale support. Because we manufacture the onboard hardware, we can integrate the full rack of discrete below decks equipment typically used on traditional VSAT systems into a single, streamlined unit that is significantly easier to deploy than competing VSAT solutions. Our mini-VSAT Broadband network utilizes advanced next-generation high-throughput satellites (HTS) capabilities offered by Intelsat and SKY Perfect JSAT.

Our approach has allowed us to develop and bring to market our TracPhone V series of terminals. Our 60-cm diameter TracPhone V7-HTS Ku-band antenna is 85% smaller by volume and 75% lighter than alternative 1-meter diameter VSAT antennas. We are able to offer download/upload speeds as fast as 10 megabits per second (Mbps)/3 Mbps.

In October 2018, we introduced our 37-cm diameter TracPhone V3-HTS Ku-band antenna, which is practical for use on smaller vessels as well as land vehicles. We believe that the TracPhone V3-HTS is the world's fastest, lightest, ultra-compact Ku-band marine VSAT antenna. Weighing 11 kg (25 lbs.), the TracPhone V3-HTS is smaller than any other Ku-band marine satellite communications antenna currently on the market and is designed to provide faster data speeds (5 Mbps download/2 Mbps upload) than some larger marine satellite antennas.

In March 2019, we introduced the TracPhone V11-HTS, which we believe is the world's fastest 1 meter KU/C-band maritime VSAT antenna, designed to deliver data speeds as fast as 20 Mbps download/3 Mbps upload to commercial maritime vessels and superyachts around the world. The fast data speeds support the critical needs of commercial ships today for operations, Internet of Things (IoT) applications, and crew connectivity. Superyacht guests can now enjoy fast connectivity for streaming HD content and accessing Internet and social media platforms at sea.

In March 2021, we introduced the TracPhone V30 marine VSAT antenna, which combines the small 37-cm antenna size, easy installation, and fast data speed to make Internet connectivity, content streaming, and social media use possible on sailboats, center console boats, and recreational boats. In addition, the TracPhone V30 is well-suited to commercial vessels that don't voyage globally, including fishing boats, tugboats, and offshore service vessels. For leisure and commercial vessels, the TracPhone V30 offers the advantages of advanced satcom technology as a replacement for legacy L-band systems that typically provide data speeds of only 432 Kbps.

*LTE Broadband.* In June 2018, we introduced the TracPhone LTE-1, which is a high-gain dual antenna array, modem, GPS, and Wi-Fi router inside a 34-cm diameter dome. The TracPhone LTE-1 uses cellular technology from two of the leading LTE carriers in the U.S., automatically switching between them to provide Internet access in U.S. waters up to approximately 20 miles offshore, with data download speeds up to 100 Mbps.

In June 2021, we introduced the LTE-1 Global marine communications system designed to provide recreational boaters and commercial mariners in more than 150 countries with Internet access up to 20 miles offshore. The system utilizes LTE Advanced cellular network technology, which is faster than regular 4G LTE.

*VSAT Deployments.* We are actively engaged in sales efforts for the TracPhone antennas and mini-VSAT Broadband service to government agencies for maritime, military, and emergency responder use. We also continue to expand our ability to support the commercial maritime market. For example, in December 2018, we completed the deployment of 45 TracPhone V7-HTS systems on Transpetro oil and gas tankers.

*Other Marine Solutions.* We offer CommBox, a ship-to-shore network management product that comprises shipboard hardware, a KVH-hosted or privately-owned shore-based hub, and a suite of software applications. Our CommBox offerings are generally integrated into the majority of our VSAT product offerings. We do not generate significant revenue from sales of standalone CommBox hardware.

We also offer Iridium OpenPort hardware and service to be used in conjunction with our mini-VSAT service. Iridium OpenPort service provides data rates up to 128 kilobits per second (Kbps) and covers the entire world, including the polar regions. We offer the Iridium hardware and service along with our own mini-VSAT solution with the integrated CommBox functionality, which will switch over to the Iridium service if the mini-VSAT service is not available. Some of our customers add the Iridium service to expand the geographic coverage of the system or as a backup service.

In September 2019, we began offering Iridium Certus, a next-generation L-band solution providing pole-to-pole global coverage. As a companion to our VSAT systems, the Iridium Certus 38-cm diameter Cobham Sailor 4300 antenna provides L-band data speeds of 704 Kbps download/176 Kbps upload. Optional routing enables onboard data to switch between our mini-VSAT Broadband service and Iridium Certus.

In addition to our TracPhone VSAT products and mini-VSAT Broadband service, we also offer a family of Inmarsat-compatible TracPhone products that provide in-motion access to global satellite communications. These products rely on services offered by Inmarsat, a satellite service provider that supports links for phone, fax, and data communications as fast as 432 Kbps. The TracPhone FB250, FB500, and FleetOne antennas use the Inmarsat FleetBroadband service to offer voice and Internet service. The TracPhone FB250, FB500 and FleetOne products are manufactured by Cobham and distributed on an OEM basis by us in North America under our TracPhone brand and distributed in other markets on a non-exclusive basis.

Unlike mini-VSAT Broadband, where we control and sell the airtime, we purchase Inmarsat and Iridium airtime directly from these companies and resell it to our customers.

*Satellite TV.* Our TracVision TV-series satellite TV antennas are designed with the full spectrum of vessel sizes in mind, ranging from recreational vessels as small as 20 to 25 feet to large commercial vessels. The TV-series incorporate an Internet Protocol (IP)-enabled control unit to allow access to system information from any Wi-Fi device. Our family of marine TracVision products includes the 32-cm diameter TracVision TV1, 37-cm diameter TracVision TV3, 45-cm diameter TracVision TV5, 60-cm diameter TracVision TV6, and 81-cm TracVision TV8. These products are compatible with Ku-band SDTV and HDTV programming as well as high-powered regional satellite TV services around the globe, based on available signal strength and antenna size requirements.

Our TracVision HD-series satellite TV antennas are designed to offer a high-definition TV experience comparable to that available to a home DIRECTV HDTV subscriber. Our TracVision HD7 uses a 60-cm diameter satellite TV antenna to receive signals from two DIRECTV Ka-band satellites and one DIRECTV Ku-band satellite simultaneously. It includes an IP-enabled antenna control unit as well as an optional antenna control unit via a free TracVision application for use on an Apple iPhone or iPad. We believe the TracVision HD7 was the first marine antenna to offer this combination of capabilities. Our TracVision HD11 offers a worldwide satellite TV capability through the use of a 1-meter diameter antenna and a global low noise block (LNB) designed for use with the majority of direct-to-home satellite TV services. As a result, it is able to receive all Ku-band and DIRECTV Ka-band satellite television signals without changing hardware elements. The Ku-band also works with modern satellite television services currently available throughout the world. The Ka-band receives DIRECTV HDTV. Like the TracVision HD7, the TracVision HD11 features an optional application for the Apple iPhone or iPad to provide easy control of the system.

In October 2019, we launched the TracVision UHD7, a high-performance 60 cm (24 inch) marine satellite TV antenna designed to provide boat owners, charter yacht guests, and commercial vessel crews with access to ultra high-definition (UHD) and 4K programming from DIRECTV as well as regular HD programming from other leading satellite TV providers.

In August 2020, we launched the TracVision TV10, a 1 meter ultrahigh efficiency marine satellite TV antenna designed to provide the biggest coverage footprint in our TracVision series and to provide boat owners, charter yacht guests, and commercial vessel crews with access to live news, local channels, and TV and movie programming from leading satellite TV providers worldwide.

#### *Land Mobile*

We design, manufacture, and sell a range of TracVision satellite TV antenna systems for use on a broad array of vehicles, including recreational vehicles (RV), buses, conversion vans, and automobiles.

In the RV and bus markets, we offer TracVision satellite TV products, intended for both stationary and in-motion use. Our TracVision R1 delivers DIRECTV or DISH network service through a small 32-cm diameter dome. Our TracVision A9 uses hybrid phased-array antenna technology to provide in-motion reception of satellite TV programming in the continental United States using either the DIRECTV or DISH Network services. The TracVision A9 stands approximately five inches high

and mounts either to a vehicle's roof rack or directly to the vehicle's roof, making it practical for use aboard minivans, SUVs and other passenger vehicles. The TracVision A9 includes a mobile satellite television antenna and an IP-enabled TV hub for easy system configuration and control via Wi-Fi devices, such as an Apple iPhone or iPad. The TracVision A9 is also suitable for tall motor coaches and buses. Automotive customers subscribe to DIRECTV's TOTAL CHOICE MOBILE satellite TV programming package, which is specifically promoted for automotive applications, or to DISH Network programming.

#### *Airtime Services*

In conjunction with our mobile satellite antenna hardware and software, we provide airtime plans that enable customers to obtain Internet and voice services. We offer a variety of rate plans that are flexible to meet the customer's needs. The key features of the mini-VSAT Broadband service are usage-based airtime plans, a network management portal and a comprehensive global customer support program. Our usage-based plans are designed around each vessel's monthly data requirements for operational and crew needs. Our network management portal, myKVH, is a secure portal that enables a ship operator to manage network usage by vessel or by individual crew members by allocating operational and crew data caps while receiving customized usage alerts. For customers who want the certainty of a fixed monthly price, we offer fixed rate plans that vary depending on data speeds, and include protocol restrictions such as limiting streaming of video content. User speeds are also restricted but not stopped when users reach established data use thresholds. In addition, we offer multiple usage plans that are either billed monthly based on the data consumed without any application or protocol blocking or based on a monthly minimum data quota with the option to add more data for an incremental charge.

AgilePlans, one of our mini-VSAT Broadband services for commercial maritime customers, offers an all-inclusive Connectivity as a Service, or CaaS, usage-based pricing model. Under this all-in-one CaaS model, we charge subscribers a single monthly fee in exchange for which we provide satellite communication hardware, shipping and installation, maintenance and support, airtime and voice services, a service management portal and certain basic content services with no minimum commitment and no long-term contract required. We offer AgilePlan customers a variety of airtime data plans with varying data allotments and fixed data usage levels with our exclusive dual-channel configuration with dual channel airtime plans delivering both a high-speed channel and an unlimited use data channel. Under our CaaS model, we retain ownership of our satellite equipment and do not sell it to subscribers, who must return the hardware to us if they terminate our service. We expect that, as customers subscribe to our AgilePlans service, our revenues from product sales will continue to decline, and our provision of this equipment to subscribers will continue to increase our capital expenditures, which over time will continue to increase our costs of service sales as we depreciate these assets.

In June 2019, we launched KVH Watch®, our all-inclusive, no-commitment, Internet of Things (IoT) Connectivity as a Service program for the maritime industry utilizing global mini-VSAT communications. Through our KVH Watch service, we offer a connectivity solution for remote equipment monitoring and intervention by maritime equipment manufacturers and IoT application providers. With remote monitoring, manufacturers can more easily act in real time, reducing expensive service calls and improving equipment performance for the maritime operation.

In October 2017, we launched our next-generation, advanced maritime broadband network with Intelsat. The HTS high-speed network incorporates Intelsat Epic satellite services and the IntelsatOne Flex platform, a global managed service designed to optimize bandwidth allocations and provide flexible coverage where it is needed. Our mini-VSAT Broadband network also benefits from Asian satellite capacity provided by SKY Perfect JSAT. Overall, our mini-VSAT Broadband HTS network currently uses a combination of 156 Ku-band transponders (five of which we directly contract for) on 17 satellites to provide Ku-band coverage throughout the northern and southern hemispheres. Three of the 17 satellites are considered high-throughput satellites that provide coverage via overlapping high-powered spot beams. Eighty-eight of the 156 Ku-band transponders are served by the high-throughput satellites. During the first quarter of 2018, we entered into a five-year capital lease for three satellite hubs for the HTS network. During the first quarter of 2021, the terms of this lease were adjusted and we discontinued use of two satellite hubs in exchange for additional satellite service capacity. In the first quarter of 2022, we are expanding our satellite connectivity services that will allow vessels to use KVH connectivity while operating in Indian territorial waters. In addition, KVH will offer satellite connectivity services to Indian flagged vessels. It is our long-term plan to continue to maintain and enhance our mini-VSAT Broadband network.

On December 31, 2021, we closed down our legacy mini-VSAT Broadband network, which had used a combination of 20 Ku-band transponders on 15 satellites to provide Ku-band coverage throughout the northern hemisphere and around the continents in the southern hemisphere.

The bandwidth speeds offered by the Ku-band satellites also permit faster data rates than those supported by Inmarsat's L-band satellites. TracPhone V11-HTS customers may select service packages with Internet data connections offering shore-to-ship satellite data rates as fast as 20 Mbps, and ship-to-shore satellite data rates as fast as 3 Mbps. The V7-HTS offers shore-to-ship satellite data rates as fast as 10 Mbps and ship-to-shore data rates as fast as 3 Mbps. The TracPhone V3-HTS, due to its smaller dish diameter, offers shore-to-ship satellite data rates as fast as 5 Mbps and ship-to-shore data rates as fast as 2 Mbps. In addition, subscriptions include Voice over Internet Protocol (VoIP) telephone services designed for use over satellite connections. The TracPhone V11-HTS and V7-HTS can support two or more simultaneous calls while the TracPhone V3-HTS can support one call at a time.

In addition, we offer professional services for our VSAT products that include network design, installation of onboard TracPhone terminals and custom configuration of the CommBox based on customer requirements. These services are performed by our employees as well as a dealer network of certified engineers.

#### *Content Services*

As part of our mobile connectivity segment, we offer a variety of value-added services to our maritime customers as well as news content to our hotel customers and radio content to a small number of retail customers. The vast majority of these value-added services are subscription-based.

Our KVH Media Group, which is based in the United Kingdom, distributes commercially licensed entertainment, including news, sports, music, and movies, to commercial and leisure customers in the maritime, hotel, and retail markets. Sales from KVH Media Group are included in our mobile connectivity service sales as part of content service sales. Our "news from home" digital newspaper service includes more than 100 daily newspapers in more than 20 languages that at the end of 2021 was delivered to more than 6,000 commercial ships, hotels, and cruise ships. The digital content can be printed onboard or viewed on a tablet, smartphone, or laptop. For movie and television content, we are an approved distributor of licensed content for certain Hollywood, Bollywood, and independent studios worldwide.

In January 2020, we decided to rebrand IP-MobileCast as KVH Link. We offer a content subscription service called KVH Link, delivered by IP-MobileCast wherein content and data files are transmitted using multicast technology across our global satellite networks to every vessel or mobile vehicle that has an active, compatible TracPhone V series or V-HTS series terminal. This delivery mechanism reduces the amount of bandwidth required to transmit large files to a large population of customers. Before multicasting, large data files were generally transmitted across satellite networks "on demand" or unicast, which consumes significant bandwidth. The content is either stored on the terminal itself or on a KVH-supplied media server, which is required for digital rights managed content such as movies. Copyright law requires permission from the rights holder for exhibitions of copyrighted film and television. Historically, studios have granted KVH Media Group permission to license non-theatrical exhibitions aboard ships. While traditionally we licensed this content to commercial maritime customers primarily through the distribution of DVDs, we have now also automated the transmission of this type of entertainment via KVH Link.

Customers that subscribe to one of our entertainment packages generally receive a variety of movie and television content that is cached locally onboard. We transmit local "news from home" and international news segments in a variety of languages on a daily, weekly or monthly basis, a library of movies plus daily sports, news clips and special programming such as the highlights of sporting events.

The COVID-19 pandemic impacted various aspects of our operations, particularly the KVH Media Group, which depends heavily on travel and travel-related industries. The revenues and cash flows of our KVH Media Group business were significantly impacted due to the global reduction in travel commencing from the start of the pandemic, as the global travel and travel-related industries dropped to historically depressed levels. In the fourth quarter of 2020, we concluded that certain areas of the KVH Media business might not recover completely or at all. As a result of these changes in the KVH Media business, we recognized an intangible asset impairment charge of \$1.8 million and a goodwill impairment charge of \$8.7 million for the year ended December 31, 2020 related to KVH Media Group. Our annual impairment analysis in the fourth quarter of 2021 did not identify any further impairments. Please see Note 1(k) to our accompanying audited consolidated financial statements for additional information.

## *Inertial Navigation Segment*

We offer a portfolio of innovative digital compass and fiber optic gyro (FOG)-based systems that address the rigorous requirements for precision, performance and stabilization of military and commercial customers. Our systems provide reliable, easy-to-use and continuously available navigation and pointing data. Our guidance and stabilization products include our FOG-based inertial measurement units (IMUs) for precision guidance, FOGs for tactical navigation as well as pointing and stabilization systems, and digital compasses that provide accurate heading information for demanding applications. Sales of FOG-based guidance and navigation systems within the inertial navigation segment accounted for 16% of our consolidated net sales for both 2021 and 2020. Sales of tactical guidance and navigation systems within the inertial navigation segment accounted for 5% and 7% of our consolidated net sales for 2021 and 2020, respectively.

### *Guidance and Stabilization*

Our high-performance digital signal processing (DSP)-based FOG products use an all-fiber design that has no moving parts, resulting in an affordable combination of precision, accuracy, and durability. Our FOG products support a broad range of military applications, including stabilization of remote weapons stations, antennas, radar, optical devices, or turrets; image stabilization and synchronization for shoulder-or tripod-mounted weapon simulators; precision tactical navigation systems for military vehicles, and guidance for weapons and unmanned autonomous vehicles. Our FOG products are also used in numerous commercial products, such as navigation and positioning systems for various applications including autonomous platforms, precision mapping, dynamic surveying, train location control and track geometry measurement systems, industrial robotics, and optical stabilization.

Our open-loop DSP-1750, DSP-3000, and DSP-4000 FOGs provide precision measurement of the rate and angle of a platform's turning motion for significantly less cost than competing closed-loop gyros. These DSP-based products deliver performance superior to analog signal processing devices, which experience greater temperature-sensitive drift and rotation errors. Applications for these products include inertial measurement units, integrated navigation systems, attitude/heading/reference systems, and stabilization of antenna, radar, and optical equipment.

The DSP-1750, which we believe to be the world's smallest high-performance FOG, uses our E-Core™ ThinFiber technology. This thin fiber, which is produced at our Tinley Park, Illinois manufacturing facility, is only 170 microns in diameter, enabling longer lengths of fiber to be wound into smaller housings. Since the length of the fiber used in a FOG directly relates to gyro accuracy and performance, this technology enables us to produce smaller and more accurate gyros. The small size and weight of the DSP-1750 make it well suited for applications with size and weight restrictions, such as night vision and thermal imaging systems, aircraft-mounted gimballed cameras for law enforcement and homeland security, and shipboard optical systems.

Our DSP-1760 single-axis and multi-axis FOGs offer improved performance and ease of integration relative to the DSP-1750. Many customers using our DSP-1750 single-axis and dual-axis FOGs also had requirements for packaged DSP-1750s. To address this demand, we introduced the DSP-1760 product line, consisting of packaged one, two, or three axes of FOGs, each with two different interface connector options.

The DSP-3000, DSP-3100, and DSP-3400 are each slightly larger than a deck of playing cards and offer a variety of interface options to support a range of applications. High-performance 2-axis and 3-axis configurations can be realized by integrating multiple DSP-3000 and DSP-3100 units. Currently, the DSP-3000, DSP-3100, and DSP-3400 are used in an array of pointing and stabilization applications, including the U.S. Army's Common Remotely Operated Weapon Station (CROWS) to provide the image and gun stabilization necessary to ensure that the weapon remains aimed at its target. We estimate that more than 20 companies have developed or are developing stabilized remote weapons stations that we believe will require similar FOG stabilization capabilities. The larger, militarized dual axis DSP-4000 is designed for use in high-shock and highly dynamic environments, such as gun turret stabilization.

The CG-5100, our first commercial-grade IMU, is suitable for a wide range of applications such as 3D augmented reality, mobile mapping, platform navigation, and GPS augmentation for unmanned vehicle programs, precise mapping, and imagery.

Our 1750 IMU is an advanced 6-degrees-of-freedom sensor designed to integrate easily into the most demanding stabilization, pointing, and navigation applications. It offers enhanced performance at a lower cost than competing systems. The 1750 IMU marries the E-Core ThinFiber technology of our DSP-1750 FOGs with very low noise, solid state MEMS accelerometers to create a commercial-off-the-shelf IMU. Our 1775 IMU and 1725 IMU products complement the 1750 IMU and provide customers with a range of choices for advanced 6-degrees-of-freedom sensors. The family of IMUs offers exceptional precision in a very small form factor, making them suitable for applications where space is limited, such as manned and unmanned commercial and defense platforms, optical equipment stabilization systems, pipeline inspection equipment, and autonomous vehicle control and navigation systems.

Our GEO-FOG 3D and GEO-FOG 3D Dual inertial navigation systems offer roll, pitch and heading accuracies of 0.05 degrees for demanding applications in unmanned, autonomous and manned aerial platforms. These systems combine our 1750 IMU technology with centimeter-level precise GNSS receivers, a 3-axis magnetometer and a barometric pressure sensor.

In June 2020, we introduced the P-1775 IMU featuring our new PIC Inside photonic integrated chip (PIC) technology. Our PIC Inside technology features an integrated planar optical chip that replaces individual fiber optic components to simplify production while maintaining or improving accuracy and performance. The PIC Inside product is designed to deliver 20 times higher accuracy than less expensive MEMS inertial measurement units, uses modular designs for ease of integration, and can be reliably manufactured at higher volumes than our traditional IMU products.

In 2021, we continued the integration of the PIC into our inertial navigation products, adding this technology to other products in the 17XX family of inertial measurement units, fiber optic gyros and inertial navigation systems. We also upgraded the existing MEMS-based accelerometer integrated within the 17XX IMU offering, delivering significant performance improvement across multiple input ranges. Keeping in line with our previous portfolio, we have added a higher input range variant in the P-1775, reaching upwards of 100 g's to support applications where the environment demands more capability, such as various airborne deployments, high caliber turret and weapon pointing and underground mining applications.

### *Tactical Navigation*

Our TACNAV tactical navigation product line employs digital compass sensors and KVH FOGs to offer vehicle-based navigation and pointing systems with a range of capabilities, including Global Positioning Systems / Global Navigation Satellite System (GPS/GNSS) backup and enhancement, vehicle position, hull azimuth and navigation displays. Because our digital compass products measure the earth's magnetic field rather than detect satellite signals from the GPS/GNSS, they are not susceptible to GPS/GNSS jamming devices.

TACNAV systems vary in size and complexity to suit a wide range of vehicles. Our TACNAV Light, including a version with embedded GPS/GNSS, is low-cost, digital compass-based battlefield navigation system specifically designed for non-turreted vehicles, such as high mobility multi-wheeled vehicles (HMMWVs) and trucks. Our TACNAV TLS, a digital compass-based tactical navigation and targeting system, offers a FOG upgrade for enhanced accuracy designed for turreted vehicles, including reconnaissance vehicles, armored personnel carriers, and light armored vehicles. Our TACNAV II Fiber Optic Gyro Navigation system offers a compact design, continuous output of heading and pointing data, and a flexible architecture that allows it to function as either a stand-alone navigation module or as the central component of an expanded, multifunctional navigation system. Our FOG-based TACNAV 3D product provides full three-dimensional navigation. The TACNAV 3D is fitted with an Iridium transceiver to transmit and receive vehicle position, waypoint, and target location to or from a command center or other vehicle. The system also allows messages to be received from battlefield management systems. The TACNAV Moving Map Display offers real-time moving map technology and an easy-to-use graphical navigation capability for military vehicles. It is compatible with existing and future TACNAV systems, provides a high-bright display for outdoor viewing, and dims to support low-light tactical operations.

Our navigation systems function as standalone tools and also aggregate, integrate, and communicate critical information from a variety of on-board systems. TACNAV can receive data from systems such as the vehicle's odometer, military and commercial GPS devices, laser rangefinders, turret angle indicators and laser warning systems. TACNAV can also output this data to an on-board computer for retransmission through the vehicle's communications systems to a digital battlefield management application.

Our TACNAV digital compass products have been sold for use aboard U.S. Army, Marine Corps, and Navy vehicles as well as to many foreign countries, including Australia, the United Kingdom, Canada, Germany, Italy, New Zealand, Saudi Arabia, Spain, Sweden, Taiwan, Malaysia, and Switzerland. We believe that we are among the leading manufacturers of such systems. Our standard TACNAV products can be customized to our customers' specifications. At customer request, we offer training and other services.

## *Value-Added Services*

Our value-added services for the inertial navigation market include engineering and program management services, product repairs, and engineering services provided under development contracts.

### **Sales, Marketing and Support**

Our sales, marketing and support efforts target markets that are substantial and complex, and require in many cases networks of intermediaries, such as dealers, distributors, airtime service providers, and manufacturers' representatives, to reach our ultimate customers. These sales channels vary and evolve from time to time, but currently include targeted efforts to reach the commercial and leisure maritime markets; the RV, high-end automotive and bus markets; and the commercial, industrial, and government markets. As our business evolves, we may pursue additional sales channels, including direct sales, in various markets. We believe our brands are well known and well respected by customers within their respective niches. These brands include:

- TracVision - satellite television systems for vessels and vehicles
- TracPhone - two-way satellite communications systems
- mini-VSAT Broadband - mobile satellite communications network and value-added services such as VoIP, data management, content and content delivery
- KVH Link - content delivery service by IP-Mobilecast
- NEWSlink - maritime news delivery service through a variety of means
- SPORTSlink™ - sporting content delivered through a variety of means
- TVlink™ - television programming delivered through a variety of means
- MOVIElink™ - movie distribution through a variety of means
- CommBox - data management software for maritime communications
- TACNAV - tactical navigation systems for military vehicles
- KVH OneCare - services and support for the mini-VSAT Broadband solution
- AgilePlans by KVH - Connectivity as a Service Program
- KVH Watch - IoT Connectivity as a Service
- KVH Elite™ - dedicated bandwidth for HD-quality streaming

We sell our mobile connectivity products directly and through an international network of independent retailers, chain stores, distributors, and service providers as well as to manufacturers of vessels, maritime equipment, and vehicles.

We sell news, sports, and entertainment media content directly through our KVH Media Group, headquartered in Leeds, England.

Our European headquarters, which is located in Denmark, coordinates our sales, marketing, and support efforts for our mobile connectivity products in Europe, the Middle East, and Africa. Our Asia-Pacific headquarters are managed through our office in Singapore.

We sell our inertial navigation products directly to U.S. and foreign governments and government contractors, as well as through an international network of authorized independent sales representatives. This network also sells our FOG products to commercial and industrial customers.

## **Backlog**

Backlog is not a meaningful indicator for predicting revenue in future periods. Commercial resellers for our mobile connectivity products and legacy products typically do not carry extensive inventories and rely on us to ship products quickly. Generally, due to the rapid delivery of our commercial products, our backlog for those products is not significant.

Our backlog for all products and services was \$23.9 million and \$20.4 million on December 31, 2021 and 2020, respectively. As of December 31, 2021, \$16.3 million of our backlog was scheduled for fulfillment in 2022 and \$7.6 million was scheduled for fulfillment in 2023 through 2025. The increase in backlog of \$3.5 million from December 31, 2020 to December 31, 2021 was primarily the result of a \$9.0 million increase in FOG product orders and \$2.6 million increase in mobile connectivity product orders, partially offset by a \$7.3 million decrease in TACNAV product orders and a \$0.7 million decrease in contracted engineering services.

Backlog consists of orders evidenced by written agreements and specified delivery dates for customers who are acceptable credit risks. We do not include satellite connectivity or media content service sales in our backlog even though many of our satellite connectivity and media content customers have signed annual or multi-year service contracts providing for a fixed monthly fee. Military orders included in backlog are generally subject to cancellation at the convenience of the customer. When orders are canceled, we generally recover actual costs incurred through the date of cancellation and the costs resulting from termination. As of December 31, 2021, our backlog included \$8.7 million in orders that are subject to cancellation for convenience by the customer. Individual orders for inertial navigation products are often large and may require procurement of specialized long-lead components and allocation of manufacturing resources. The complexity of planning and executing larger orders generally requires customers to order well in advance of the required delivery date, resulting in backlog.

## **Intellectual Property**

We currently hold a collection of intellectual property rights relating to various aspects of our inertial navigation and mobile connectivity hardware products, software and services. We believe that our ability to compete effectively depends to a significant extent on our ability to protect these intellectual property rights and our proprietary information. We rely primarily on patent, copyright and trade secret laws, trademarks, service marks, trade dress, confidentiality procedures, and licensing arrangements to protect our intellectual property rights in the U.S. and other countries where we determine that such protection is beneficial. When appropriate, we seek to file patent applications to protect innovations arising from our research, development and design activities, and we are currently pursuing 42 U.S. and foreign patent applications. Over time, we have accumulated a portfolio of 36 U.S. and foreign issued patents, including utility patents, design patents and others. We also register our trademarks in the United States and other key international markets where we do business. Our patents will expire at various dates between November 2022 and May 2040. We enter into confidentiality agreements with our consultants, key employees, and sales representatives and maintain controls over access to and distribution of our technology, software, and other proprietary information. 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.

We do not generally conduct exhaustive patent searches to determine whether the technology used in our products infringes patents held by third parties. In addition, product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, many of which are confidential when filed, with regard to similar technologies.

From time to time, we have faced claims by third parties that our products or technologies infringe their patents or other intellectual property rights, and we may face similar claims in the future. Any claim of infringement could cause us to incur substantial costs defending against or settling the claim, even if the claim is invalid, and could distract the attention of our management. If any of our products is found to violate third-party proprietary rights, we may be required to pay substantial damages. In addition, we may be required to re-engineer our products or seek to obtain licenses from third parties to continue to offer our products. Any efforts to re-engineer our products or obtain licenses on commercially reasonable terms may not be successful, which would prevent us from selling our products, and, in any case, could substantially increase our costs and have a material adverse effect on our business, financial condition, and results of operations.

## **Manufacturing**

Manufacturing operations for our mobile satellite communications and navigation products consist of light manufacture, final assembly and testing. Manufacturing operations for our FOG products are more complex. We produce specialized optical fiber, FOG components and sensing coils and combine them with components purchased from outside vendors for assembly into finished goods. These finished goods undergo extensive calibration and verification over temperature and rotation before shipping to customers. We own optical fiber drawing towers with which we produce the specialized optical fiber that we use in all of our FOG products. We manufacture, warehouse and distribute our mobile satellite communications products at our facilities in Middletown, Rhode Island. We manufacture our navigation and FOG products in our facility located in Tinley Park, Illinois. Our manufacturing processes are controlled by an ISO 9001:2015-certified quality standards program.

## **Raw Materials, Components and Services**

We purchase raw materials and most of the components used in our various manufacturing processes, such as printed circuit boards, injection-molded plastic parts, machined metal components, connectors and housings. In addition, we purchase certain services, predominantly networking and mobile broadband services, to support the delivery of our mobile communications solutions.

The materials, molds and dies, subassemblies and components purchased from other manufacturers, and other materials and supplies used in our manufacturing processes have generally been available from a variety of sources. We believe there are a number of acceptable vendors for the components we purchase. We regularly evaluate both domestic and foreign suppliers for quality, dependability and cost effectiveness. From time to time the cost and availability of materials and services is affected by the demands of other industries, among other factors. Whenever practical, we seek to establish multiple sources for the purchase of raw materials, components and services to achieve competitive pricing, maintain flexibility, reduced tariff exposure, and protect against supply disruption. When possible, we employ a company-wide procurement strategy designed to reduce the purchase price of materials, purchased components and services.

For reasons of quality assurance, scarcity or cost effectiveness, certain components and raw materials used in the manufacturing of our products, as well as certain services utilized in the delivery of our solutions, are available only from a limited number of suppliers or from a sole source supplier. We work with our suppliers to develop contingency plans intended to assure continuity of supply while maintaining high quality and reliability, and in some cases, we have established long-term supply contracts with our suppliers. Due to the nature of certain raw materials, purchased components and services, we may not be able to quickly establish additional or replacement sources for certain components, materials or services. In the event that we are unable to obtain sufficient quantities of raw materials or components or unable to obtain sufficient access to the services needed to deliver our solutions on commercially reasonable terms or in a timely manner, our ability to manufacture and deliver our products and services on a timely and cost-competitive basis may be compromised, which may have a material adverse effect on our business, financial condition and results of operations. In 2021, we experienced delays in the availability and delivery of certain raw material components, which impacted our manufacturing efficiencies and resulted in delays in shipping products to our customers. We also experienced increases in raw material costs, which we expect to continue throughout 2022. We are continuing to monitor global developments and are prepared to implement any actions that we determine to be necessary to sustain our business, including expanding our sources of supply and modifying product designs to accommodate product availability.

## **Competition**

We encounter significant competition in the markets we serve, and we expect this competition to intensify in the future. Many of our primary competitors are well-established companies and some have substantially greater financial, managerial, technical, marketing, operational, and other resources than we do.

In the marine market for satellite TV equipment, we compete primarily with Intellian, Cobham SATCOM, Orbit Communication Systems, Raymarine (Intellian made), KNS, and Sea King (King Controls).

In the marine market for voice, fax, data, and Internet communications equipment, we compete primarily with Intellian, Cobham SATCOM, Orbit Communication Systems, Jotron AS, KNS Inc., Inmarsat, AddValue, and Iridium Satellite LLC.

In the marine market for high-speed voice, fax, data, and Internet services, we compete primarily with Inmarsat, Marlink, Speedcast, Network Innovations, Anuvu, and Isotropic Network. We also face competition from providers of low-speed data services, which include Inmarsat, Globalstar LP, and Iridium Satellite LLC.

In the market for land mobile satellite TV equipment, we compete primarily with King Controls and Winegard Company.

In the markets for media content, we compete primarily with Swank Motion Pictures and Newspapersdirect Inc.

In the markets for mobile satellite connectivity technology, the principal competitive factors are product size, features, design, performance, reliability, and price. In the markets for airtime services, the principal competitive factors are geographic coverage, data speed, value-added services, and price. In the markets for media content, the principal competitive factors are license rights, distribution, and price.

In the inertial navigation markets, we compete primarily with Honeywell International Inc., Northrop Grumman Corporation, Sensoror (purchased by Safran in 2021) and Systron Donner Inertial (purchased by EMCORE in 2019). We believe the principal competitive factors in these markets are performance, size, reliability, durability, and price.

Although we believe that we compete favorably with respect to these factors, there can be no assurance that we will continue to do so. We encounter substantial competition in most of our product lines, although no single competitor competes with us across all product lines.

## **Research and Development**

Focused, efficient investments in research and development are critical to our future growth and competitive position in the marketplace. Our research and development efforts are directly related to timely development of new and enhanced products and services that are central to our core business strategy and our ability to drive profitable, sustainable growth. The industries in which we compete are subject to rapid technological developments, evolving industry standards, changes in customer requirements, and new product and service introductions and enhancements. As a result, our success depends in part upon our ability, on a cost-effective and timely basis, to continue to enhance our existing products and to develop and introduce new products and services that improve performance and meet customers' operational and cost requirements. Our current research and development efforts include projects to achieve additional cost reductions in our products and the development of new products and services for our existing marine and land mobile communications markets, and navigation, guidance, and stabilization application markets. For example:

- In June 2020, we introduced the P-1775 inertial measurement unit (IMU) featuring our new PIC Inside photonic integrated chip (PIC) technology.
- In August 2020, we launched the TracVision TV10, a 1 meter ultra high-efficiency marine satellite TV antenna designed to provide the biggest coverage footprint in our TracVision series.
- In March 2021, we released the TracPhone V30 mini-VSAT Broadband antenna featuring single-cable, DC-powered design, integrated modem in the dome for higher signal strength and efficiency, and compact below decks unit with built-in Wi-Fi.
- In November 2021, we expanded our KVH Watch suite of maritime IoT solutions with Cloud Connect, a service designed to utilize advanced edge computing to enable integration of maritime applications and digital services for smart shipping.

Our research and development activities consist of projects funded by us and projects funded partly by customers. Our customer-funded research efforts are made up of contracts with defense and OEM customers, whose performance specifications are unique to their product applications. Defense and OEM research often results in new product offerings. We strive to be the first company to bring a new product to market in order to maintain our market leadership position, and we use our own funds when necessary to accelerate new product development efforts.

## **Government Regulation**

Our manufacturing operations are subject to various laws governing the protection of the environment and our employees. These laws and regulations are subject to change, and any such change may require us to improve our technologies, incur expenditures, or both, in order to comply with such laws and regulations.

We are subject to compliance with the U.S. Export Administration Regulations. Some of our products have military or strategic applications and are on the Munitions List of the U.S. International Traffic in Arms Regulations. These products

require an individual validated license to be exported to certain jurisdictions. The length of time involved in the licensing process varies and can result in delays of the shipping of the products. Sales of our products to either the U.S. government or its prime contractors are subject to the U.S. Federal Acquisition Regulations.

We are also subject to the laws and regulations of the U.S. and foreign jurisdictions in which we offer and sell our satellite communication products and services, including those of the European Union, Brazil, Norway, Singapore, and Japan. These laws and regulations, as well as the interpretation and application of these laws and regulations, are subject to change and any such change may affect our ability to offer and sell existing and planned satellite communications products and services.

### **KVH Team Demographics**

KVH team members are essential to the success of KVH. We had 648 team members as of December 31, 2021, including full-time employees, part-time employees, and long-term contractors. The figures in this section provide information as of December 31, 2021 and do not reflect the reduction in force that we implemented in March 2022, whereby we reduced our workforce by approximately 66 positions.

| <b>KVH Team Member Headcount</b> |            |
|----------------------------------|------------|
| <b>Category</b>                  | <b>#</b>   |
| Full-time employees              | 607        |
| Part-time employees              | 31         |
| Long-term contractors            | 10         |
| <b>Total</b>                     | <b>648</b> |

Our team members are directly responsible for the creation, development, manufacture, marketing, sale, repair and support of our products and services. Because we sell and support our products globally, we have a globally distributed workforce to manufacture products in the U.S. and support our customers in the U.S. and internationally:

| <b>KVH Team Member Headcount</b> |            |
|----------------------------------|------------|
| <b>Country</b>                   | <b>#</b>   |
| Brazil                           | 2          |
| Cyprus                           | 3          |
| Denmark                          | 16         |
| Germany                          | 2          |
| Greece                           | 3          |
| Hong Kong                        | 3          |
| India                            | 30         |
| Italy                            | 2          |
| Japan                            | 1          |
| Norway                           | 7          |
| Philippines                      | 55         |
| Poland                           | 1          |
| Singapore                        | 15         |
| South Africa                     | 1          |
| Spain                            | 1          |
| United Arab Emirates             | 1          |
| United Kingdom                   | 89         |
| United States                    | 416        |
| <b>Total</b>                     | <b>648</b> |

Approximately 226 team members, or 35%, are directly involved in supporting our technology in positions such as engineers, technicians, or software developers.

### **Employee Engagement**

We believe we have strong relationships with our workforce. In 2021, our global turnover rate was 13.4%, including voluntary and involuntary separations. Among our 81 key executive leaders and most critical individual technology contributors, our turnover rate was 12.3% in 2021. As above, the figures in this section provide information as of December 31, 2021 and do not reflect our March 2022 reduction in force.

The average length of employee service is 9 years. The continuity of our employee base is important to the success of our business, as our employees have deep knowledge of our products and are critical to the services that we provide to our customers.

KVH surveys team member engagement annually. The annual survey standardizes how KVH measures engagement across our organization and affords us an opportunity to address areas for improvement. By listening to employees, we gain a better understanding of what our employees need in order to succeed, enabling us to develop programs that create a stronger and more committed workforce.

### **Inclusion and Diversity**

KVH actively cultivates the diverse talents of our team and strives to recruit and maintain a diverse and inclusive workforce everywhere we operate, which we believe enables better business decisions, enhanced product development, and superior customer service. Our diversity and inclusion principles are also reflected in our employee training, in particular with respect to our policies against harassment in the workplace.

### **Competitive Pay and Benefits**

KVH's compensation programs are designed to align the compensation of our employees with KVH's performance and provide incentives to attract, retain and motivate employees to achieve superior results. The structure of our compensation programs balances incentive earnings for both short-term and long-term performance. Specifically:

- We provide employee wages that we believe are competitive and consistent with employee positions, skill levels, experience, knowledge, and geographic location.
- We review compensation and benefits surveys to obtain relevant industry data in order to benchmark our practices against those of industry peers.
- We seek to align the interests of our executives with those of our shareholders by paying a significant portion of our executives' total compensation in the form of equity awards, which increase in value as the price of our common stock increases.
- Annual salary increases and incentive compensation include adjustments based on merit, which is communicated to employees through our annual review process and upon internal transfers and/or promotions.
- All employees are eligible for health insurance, paid and unpaid leaves, a retirement plan and life and disability/accident coverage, subject to applicable regulations.

### **Health and Safety**

We are committed to protecting the health and safety of our employees and others who enter any of our facilities, wherever located. In 2021, KVH's OSHA total recordable incident rate was 1.43 which is favorable compared to the 2020 OSHA national average of 2.9. In 2020, we introduced a range of new safety protocols in our facilities in an effort to protect our employees and support appropriate health and safety protocols in response to COVID-19 and the global pandemic. These safety protocols have since been relaxed to align with federal and state mandates, but will return if the COVID-19 pandemic worsens.

We are committed to continued improvements to our safety, health, and wellness programs to meet our employees' needs, which we believe is critical to attract and retain talent. We believe that creating a safe and supportive workplace is vital to our success.

## **KVH Team Member Recruitment**

We work diligently to attract the best available talent from a diverse range of sources to meet the current and future demands of our business. We have established relationships with major universities, professional associations, and industry groups to proactively attract talent. In 2021, we hired 23 professional level team members.

## **Working Capital and Seasonality**

We hold significant inventory to support our customers and provide prompt delivery of finished goods. As a consequence, we expend substantial working capital in advance of receipt of customer orders. Because of the large size of certain orders, we often incur significant receivables upon order fulfillment.

Our leisure marine business within the mobile connectivity segment is highly seasonal, and seasonality can also impact our commercial marine business. 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. 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.

## **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 regaining profitability may take longer than we anticipate or may not be achievable.**

We recorded substantial losses from continuing operations in each of the last three fiscal years (notwithstanding the income we recognized in 2021 from the forgiveness of the PPP Loan). We may continue to incur losses as we increase satellite capacity to handle our growing subscriber base, as we continue to shift our business from a model based primarily on product sales to a model based primarily on recurring revenue, as we confront the impact of the COVID-19 pandemic, especially regarding the global chip shortage and supply chain constraints, on our business and as we continue to invest in research and development to improve our existing products and develop new products. In order to regain profitability, we must grow our airtime subscriber base (including recruiting or replacing customers of our legacy network that have yet to subscribe to our HTS service), reduce our costs, and continue to introduce new and improved products in order to maintain and improve our competitive position and generate revenue. 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 profitability.

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

Our future net sales and results of operations could continue to vary significantly from quarter to quarter due to a number of factors, many of which are outside our control. Accordingly, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that our net sales or results of operations in a quarter will 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 in any quarter can fluctuate for many reasons, including changes in demand for our products and services; the timing and size of individual orders from military customers, which may be delayed or canceled for various reasons; delays in order fulfillment, including as a result of shortages of components and raw materials; the mix of products and services 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, including the availability of components and subassemblies from our suppliers; our success in winning competitions for orders; the timing of new 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 mini-VSAT Broadband network; market and competitive pricing pressures; unanticipated charges or expenses, such as increases in warranty claims; expenses incurred in responding to stockholder activism; general economic climate; seasonality of pleasure boat and recreational vehicle usage; and the impact of the COVID-19 pandemic and resulting supply chain disruptions.

A large portion of our expenses, including expenses for network infrastructure, facilities, equipment, and personnel, are relatively fixed. Accordingly, if our net sales decline or do not grow as much or as quickly as we anticipate, we might be unable

to maintain or improve our operating margins. Any failure to achieve anticipated net sales could therefore significantly harm our operating results for a particular fiscal period.

**Additional impairments to goodwill or other intangible assets could result in significant charges against earnings.**

As a result of our acquisitions, we have recorded, and may continue to record, a significant amount of goodwill and other intangible assets. Under current accounting guidelines, we must assess, at least annually and potentially more frequently, whether the value of goodwill and other intangible assets has been impaired. In 2020, our annual impairment test resulted in an impairment charge of \$10.5 million in our KVH Media reporting unit. Even after recording this impairment, our consolidated balance sheet at December 31, 2021 includes \$7.9 million of goodwill and other intangible assets, of which \$3.5 million relates to KVH Media Group. Our annual impairment analysis in the fourth quarter of 2021 did not identify any further impairments. However, there can be no assurance that our remaining goodwill and other intangible assets will not be further impaired, especially if the global COVID-19 pandemic continues to impact the markets in which our Media Group operates.

**Risks related to our operations**

**Our future performance will depend in part on the success of our management transition.**

On March 7, 2022, we announced that our President and Chief Executive Officer, Martin Kits van Heyningen, was retiring from his executive and Board roles after more than 40 years of service. Brent C. Bruun, our Chief Operating Officer, has been appointed as our interim President and Chief Executive Officer. The Board of Directors engaged an executive search firm to identify a new Chief Executive Officer. Because Mr. Kits van Heyningen will no longer participate in the day-to-day management of our business, we will not have the full benefit of his long experience, expertise and familiarity with our customers and suppliers and the industries in which we participate. If we are not successful in implementing our management transition, it could be viewed negatively by our customers, employees or investors and have an adverse impact on our business. Further, these changes will increase our dependency on other members of our executive management team who remain with us. Our executive officers are at-will employees, competition is intense for executive 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.**

We are highly dependent on the efforts and abilities of qualified personnel at all levels, including our senior management team and other key technical, operational, managerial and sales and marketing personnel, each of whom brings a valuable set of skills that would be difficult to replace. 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. We recently announced a change in our strategic priorities, whereby we plan to focus on our core businesses, implement greater discipline in our new product initiatives and reduce costs. We may not achieve the anticipated benefits and cost savings from this restructuring. As part of this change, we announced a reduction in force of approximately 10% to realign our workforce to match our strategic priorities. The workforce reduction will result in the reallocation and combination of certain roles and responsibilities across the organization. Moreover, the reduction in force may yield unintended consequences and costs, such as attrition beyond the intended reduction in force, the distraction of employees and reduced employee morale, and could adversely affect our reputation as an employer. We expect to incur severance and other expenses in connection with the reduction in force, which will reduce our earnings at least in the near term. The current job market for our personnel is very competitive, resulting in increased compensation, and we face challenges in seeking to retain our continuing personnel and attract new personnel to fulfill our unmet needs. Prior to the reduction in force, we experienced increased turnover among our employees. Replacing key personnel may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully execute our business strategy, and we cannot assure you that we will be able to identify or employ qualified personnel for any such position on acceptable terms, if at all. In order to retain and attract qualified personnel, we may need to pay higher compensation than we currently expect, which would make it more difficult to achieve our goal of returning to profitability.

Further, if we are unable to adjust our operating expenses on a timely basis in response to changes in our operations, our results of operations may be harmed. To manage changes in our business effectively, we must, among other things, match our manufacturing facilities and capacity to demand for our products and services; secure appropriate satellite capacity to match changes in demand for airtime services; effectively manage our inventory and working capital; ensure robust cybersecurity protection of company and customers data and systems; and ensure that our procedures and internal controls are revised and updated to remain appropriate for our realigned workforce and the size and scale of our business operations.

**Restructuring activities could disrupt our business and affect our results of operations.**

We recently announced a restructuring to re-align our workforce to match strategic and financial objectives and optimize resources for long-term growth, including a reduction in force. We also implemented a management transition, and our new management may take similar steps in the future to generate operating synergies, to achieve our target operating model and financial objectives, or to reflect more closely changes in the strategic direction of our business. We may also choose to make strategic divestitures. Any of these changes could be disruptive to our business, including our research and development and product launch efforts, and could result in significant expense, including losses on any divestiture, accounting charges for inventory and technology-related write-offs and workforce reduction costs, and significant transaction costs, including for potential transactions that do not proceed. Substantial expense or charges resulting from restructuring activities or divestitures could adversely affect our results of operations and use of cash in the periods in which we take these actions. Any divestiture could also result in the retention of liabilities and expenses that are not assumed by the acquirer or the loss of operating income from the divested operations, either of which could negatively impact profitability after any divestiture.

**We must generate a certain level of sales of the TracPhone V-HTS series products and our mini-VSAT Broadband service in order to maintain or improve our service gross margins.**

As a result of our mini-VSAT Broadband network infrastructure, our cost of service sales includes certain costs that generally do not vary directly in proportion with the volume of service sales, and we have limited ability to reduce these fixed costs in the short term. These costs have increased significantly each year as we have further expanded our network to accommodate additional subscriber demand and/or coverage areas, and we expect that this trend will continue in 2022 and beyond, particularly as we expand our HTS network. If sales of our TracPhone V-HTS series products and the mini-VSAT Broadband service, including through our AgilePlans subscription model, do not generate the level of revenue that we expect or if those revenues decline, our service gross margins may decline. The failure to improve our mini-VSAT Broadband service gross margins and unit or subscriber sales would have a material adverse effect on our overall profitability.

**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 mini-VSAT Broadband 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 mini-VSAT Broadband service 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 third and fourth 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 have single dedicated manufacturing facilities for each of our mobile connectivity and inertial navigation product categories, and any significant disruption to a facility will impair our ability to deliver our products.**

We currently manufacture all of our mobile connectivity products at our manufacturing facility in Middletown, Rhode Island, and all of our inertial navigation products at our facility in Tinley Park, Illinois. Some of our production processes are complex, and we may be unable to respond rapidly to the loss of the use of either production facility. For example, our production facilities use some specialized equipment that may take time to replace if they are damaged or become 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. Finally, we have only a limited capability to increase our manufacturing capacity in the short term. If short-term demand for our products exceeds our manufacturing capacity, our inability to fulfill orders in a timely manner could also lead to customer or dealer dissatisfaction, loss of sales and damage to our reputation.

## **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 dependence on technology and third parties**

#### **Our mobile satellite products currently depend on satellite services, gateway teleports and terrestrial networks provided by third parties, and a disruption in those services could adversely affect sales.**

Our satellite antenna products include the equipment necessary to utilize 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. We currently offer satellite television products 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 various other regional satellite TV services in other parts of the world.

Intelsat and Sky Perfect-JSAT currently provide the satellite capacity to support the mini-VSAT Broadband service and our TracPhone and V-HTS series products. In addition, we have agreements with various teleports and Internet service providers around the globe to support the mini-VSAT Broadband service. The terrestrial fiber links that we use to connect with the Internet and to move our voice 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 rely on Inmarsat for satellite communications services for our FleetBroadband and FleetOne compatible TracPhone 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.

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 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 and security 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 programming, pricing, service, availability 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 our satellite products. There may be no alternative satellite service provider available to us in a particular geographic area, and our modem or other technology may not be compatible with the technology of any alternative service provider that may be available. Even if available, delays caused by switching our technology 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, our products.

**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, sports, movies, and music content for commercial and leisure customers in the maritime, hotel, and retail 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 security impact. The protective measures on which we rely may be inadequate to prevent or detect cybersecurity breaches or determine the extent of any breach, and there can be no assurance that undetected breaches have not already occurred. If any of these events were to occur, they 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 have been, and are expected to be, adversely impacted by economic turmoil, political events, macroeconomic conditions, credit tightening and associated declines in consumer and enterprise spending, and by the continuation of the COVID-19 pandemic, including related supply chain issues.**

Economic conditions in the various geographic markets we serve have experienced significant turmoil over the last several years, including downturns related to the COVID-19 pandemic, slow economic activity, tight credit markets, inflation and deflation concerns, low consumer confidence, limited capital spending, adverse business conditions, war and refugee crises in the Middle East and Europe, terrorist attacks, the departure of the United Kingdom from the European Union, changes in government priorities, trade wars, a government shutdown, gridlock from a divided Congress, and liquidity concerns. These factors vary in intensity by region. Further, in response to the COVID-19 pandemic, governments have implemented, revised, withdrawn, reinstated and expanded extensive safety precautions, including quarantines, travel restrictions, business closures, cancellations of public gatherings and other measures. Other organizations and individuals continue to take additional steps to avoid or reduce infection, including limiting travel and implementing work-at-home policies. These measures have significantly disrupted normal business operations both in and outside of affected areas, and complying with them has increased our costs. Travel restrictions and safety precautions have also limited our ability to service and install our equipment. Although we are unable to predict the ongoing impact of the pandemic, our mobile communications business in particular largely depends on travel. The operations of our KVH Media Group were particularly impacted due in part to the global reduction in travel resulting from the pandemic. We anticipate that, until the pandemic is contained, governmental, individual, business and other organizational measures to limit the spread of the virus will continue to adversely affect our revenues, results of operations and financial condition, perhaps materially. An outbreak of infection in any of our facilities could severely disrupt our operations. We continue to monitor government recommendations and have made modifications to our operations because of the pandemic. Our customers' businesses could be further disrupted, and our revenues could continue to be adversely affected. Additionally, global economic disruptions like the COVID-19 pandemic have negatively impacted, and could continue to negatively impact, our supply chain and continue to cause delays in the delivery of raw materials, components and other supplies that we need to conduct our operations and generate revenue. The extent to which the pandemic will continue to impact our business will depend on many factors beyond our control, including the speed of contagion, the appearance of new variants, the development and implementation of effective preventative measures and vaccines, the scope of governmental and other restrictions on travel and other activity, and public reactions to these factors.

There can be no assurances that government programs to maintain or improve economic conditions, including stimulus and other aid programs intended to combat the impact of the pandemic, will be effective. As a result of these and other factors, customers and government entities could continue to slow or suspend spending on our products and services. We may also incur increased credit losses and need to further increase our allowance for doubtful accounts, which would have a negative impact on our earnings and financial condition.

We cannot predict the timing, duration, or ultimate impact of the turmoil in our markets. We expect our business to continue to be adversely impacted by this turmoil, particularly in relation to the COVID-19 pandemic, 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 change in U.S. presidential administrations may alter the U.S.'s 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 the U.S. government or foreign governments will or will not take with respect to tariffs or other international trade agreements and policies. Current trade negotiations may fail, which may exacerbate these risks. 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.**

Because of the scope of our foreign sales and foreign operations, we face significant exposure to movements in exchange rates for foreign currencies, particularly the pound sterling and the euro. For example, during 2020, the U.S. dollar strengthened

slightly against certain foreign currencies, which adversely affected revenues reported in U.S. dollars and decreased the reported value of our assets in foreign countries.

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.

Moreover, 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 government sales**

#### **Our financial performance is impacted by U.S. government contracts, which are subject to uncertain levels of funding and termination**

We are unable to predict the impact on our business of Congressional gridlock, tax reform and government policies, including new expenditures to address the COVID-19 pandemic, which have increased already significant budget deficits and may lead to an overall reduction in federal spending on programs important to our business. A reduction in sales to the U.S. government or its contractors, whether due to lack of funding, for convenience or otherwise, or the occurrence of delays, could negatively impact our results of operations and financial condition.

#### **The purchasing and delivery schedules and priorities of the U.S. military, government contractors and foreign governments are often unpredictable and subject to uncertain levels of funding and termination.**

We have historically sold a substantial portion of our TACNAV and FOG products and services to the U.S. government and its contractors as well as foreign military and government customers, either directly or as a subcontractor to other contractors. These customers often use a competitive bidding process and have unique purchasing and delivery requirements, which often makes the timing of sales to these customers unpredictable. Factors that affect their purchasing and delivery decisions include increasing budgetary pressures, which may reduce or delay funding for military programs; changes in modernization plans for military equipment; changes in tactical navigation requirements; global conflicts impacting troop deployment, including troop withdrawals; priorities for current battlefield operations; new military and operational doctrines that affect military equipment needs; sales cycles that are long and difficult to predict; shifting response time and/or delays in the approval process associated with the export licenses we must obtain prior to the international shipment of certain of our military products; delays in military procurement schedules; and delays in the testing and acceptance of our products, including delays resulting from changes in customer specifications.

In addition, U.S. government contracts generally permit the government to terminate the contract without prior notice, at the government's convenience or for default based on performance. Government customers can also decline to exercise previously disclosed contract options. A termination arising out of our default could expose us to liability and adversely affect our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor.

These factors periodically cause substantial fluctuations in sales of our TACNAV and FOG products and services. Fluctuating commercial sales of our inertial navigation products are also making it harder to predict our future revenues. For example, TACNAV product sales decreased \$2.9 million, or 27%, from 2020 to 2021, while sales of our FOG products increased \$3.0 million, or 12%, from 2020 and 2021. Investors should not expect that any periodically high rates of growth will be repeated in future quarters; given the substantial fluctuations in quarterly sales, we could similarly experience substantial reductions in revenue from time to time.

**Sales of our FOG systems and TACNAV products generally consist of a few large orders, and the delay or cancellation of a single order will substantially reduce our net sales. Only a few customers account for a substantial portion of our inertial navigation revenues, and the loss of any of these customers could substantially reduce our net sales.**

We derive a significant portion of our inertial navigation revenues from a small number of customers, many of whom are contractors for the U.S. government. KVH products sold to these customers are purchased through orders that can generally range in size from several hundred thousand dollars to several million dollars. For example, we received an order for \$7.9 million of FOG products in August 2021, an order for \$10.0 million of TACNAV products in July 2020, an order for \$4.0 million of FOG products in October 2019 and an order for \$6.7 million of TACNAV products and services in September 2019. Orders of this size are often unpredictable and difficult to replicate. As a result, the delay or cancellation of a single order could materially reduce our net sales and results of operations. We routinely experience repeated and unanticipated delays in defense orders, which make our revenues and operating results less predictable. Because our inertial navigation products typically have relatively higher product gross margins than our mobile connectivity products, the loss of an order for inertial navigation products could have a disproportionately adverse effect on our results of operations.

### **Risks related to our industry**

#### **Competition may limit our ability to sell our mobile connectivity products and services and inertial navigation products.**

The mobile connectivity and inertial navigation markets are very competitive, and we expect this competition to intensify. We may not be able to compete successfully against current and future competitors, which could impair our ability to sell our products and services. For example, improvements in the performance of lower-cost gyros by competitors, as well as various industry certification requirements, could jeopardize sales of our FOGs and FOG-based systems. As our market share in the mobile satellite communication market has grown, competition has intensified significantly, most notably from companies that seek to compete primarily on price. 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 order to maintain or increase our market share. Some of our VSAT competitors have also 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 only on less favorable terms.

In the marine market for satellite TV equipment, we compete primarily with Intellian, Cobham SATCOM and Raymarine (Intellian made). In the marine market for voice, fax, data, and Internet communications equipment, we compete primarily with Intellian and Cobham SATCOM. In the marine market for high-speed voice, fax, data, and Internet services, we compete primarily with Inmarsat, Marlink and Network Innovations. We also face competition from providers of low-speed data services, which include Inmarsat, Globalstar LP, and Iridium Satellite LLC. 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 and NewspaperDirect Inc. In the inertial navigation markets, we compete primarily with Honeywell International Inc., Northrop Grumman Corporation, Emcore and Safran. 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.

#### **The emergence of a competing small maritime VSAT antenna and complementary service or other similar service could reduce the competitive advantage we believe we currently enjoy with our smaller TracPhone V-HTS series antennas and Ku-band mini-VSAT Broadband service, or with our TracPhone V11-HTS antenna and our C/Ku-band mini-VSAT Broadband service.**

Our TracPhone V-HTS and V-IP systems offer customers a range of benefits due to their integrated design, hardware costs that are lower than existing maritime Ku-band VSAT systems, and broadband technology. We currently compete against companies that offer established maritime Ku-band VSAT service using, in some cases, antennas 1-meter in diameter or larger. While we are unaware of any company offering a 37-cm VSAT solution comparable to our TracPhone V3-HTS or V30, we are encountering regional competition from companies offering 60-cm VSAT systems and services, which are comparable in size to our TracPhone V7-HTS. Likewise, our TracPhone V11-HTS, at 1.1-meters in diameter, is approximately 85% smaller and lighter than competing C-band maritime VSAT systems, which use antennas in excess of 2.4-meters in diameter to provide similar global services. We are unaware of any competitor currently offering a similar size solution for global C-band coverage, but any introduction of such a product could adversely impact our success. In addition, other companies could replicate some of the distinguishing features of our TracPhone V-HTS series products, which could potentially reduce the appeal of our solution, increase price competition, and adversely affect sales. We compete against Inmarsat's Fleet Xpress service, a global Ka-band mobile VSAT service that Inmarsat claims is faster and has a lower price per megabit than existing Ku-band services. This

service may continue to adversely impact sales of our mini-VSAT Broadband service and related equipment. Our arrangement to use the IntelsatOne Flex service for our HTS network is not exclusive, and competitors' use of this service could also adversely impact sales. Moreover, consumers may choose other services such as FleetBroadband or Iridium OpenPort for their service coverage at potentially lower hardware costs despite higher service costs and slower data rates.

**Any failure to maintain and expand our third-party distribution relationships may limit our ability to penetrate markets for mobile connectivity products and services.**

We market and sell our mobile connectivity products and services through an international network of independent retailers, chain stores and distributors, as well as to manufacturers of marine vessels, recreational vehicles and buses. Most of these relationships are non-exclusive, allowing these third parties to market competing products. If we fail to maintain relationships with our current distributors, fail to develop relationships with new distributors in new and existing markets, or manage, train, or provide appropriate incentives to our existing distributors, or if our distributors are not successful in their sales efforts, sales of our products and services may decline and our operating results could be harmed.

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

We obtain many key components for our products 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 our products 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 have impacted our ability to deliver products in a timely manner and have increased our cost of sales due to rising prices for materials. In the fourth quarter of 2021, we estimate that raw material costs exceeded our expectations by approximately \$0.4 million, and that orders for approximately \$2.0 million could not be filled due to component shortages. We may not be able to pass along any or all of these cost increases to our customers, and customers may not wait for our products to become available. These disruptions in our supply chain could continue or worsen, which could continue to delay delivery of our products and services and adversely affect our revenue and results of operations in future periods. Suppliers might change or discontinue key components, which could require us to modify our product designs. Regulations requiring government contractors to implement processes to avoid counterfeit parts may require us to find new sources of materials or components if a supplier cannot meet those requirements. In general, we do not have written long-term supply agreements with our suppliers but instead buy 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 product 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, from time to time, lead times for certain components can increase significantly due to imbalances in overall market supply and demand. This, in turn, could limit our ability to satisfy demand for our products on a timely basis and could result in the cancellation of customer orders. Further, adverse economic conditions, including conditions caused by the current COVID-19 pandemic, could result in financial difficulties or bankruptcy for any of our suppliers, which could adversely affect our business and results of operations.

**We may source more materials and components from international suppliers, which could disrupt our business.**

Although we have historically manufactured and sourced raw materials for the majority of our products domestically, in order for us to compete with lower priced competing products while also improving our profitability, in some instances we have found it desirable to source raw materials and manufactured components and assemblies from Europe, Asia, and South and North America. Reliance on foreign manufacturing and/or raw material supply has lengthened our supply chain and increased the risk that a disruption in that supply chain could have a material adverse effect on our operations and financial performance.

**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 2019, we recorded a \$2.3 million inventory reserve relating to our TracPhone V-IP products as we decided to no longer promote sales of these products but instead to focus our efforts on migrating customers to our HTS network and products. Market or competitive changes 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.

### **Risks related to intellectual property**

**We are devoting significant resources to research and development efforts that may be unsuccessful. If we are unable to improve our existing mobile connectivity and inertial navigation products and services and develop new, innovative products and services, our sales and market share may decline.**

The markets for mobile connectivity products and services and inertial navigation products and services are each characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards. For example, we now compete with Inmarsat's Fleet Xpress satellite communications products and services. If we fail to make innovations in our existing products and services and reduce the costs of our products and services in a timely way, our market share may decline. For example, the introductions of our TracVision TV-series antennas in 2014 occurred later than we had anticipated, which we believe led certain customers to purchase competing products. 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 in our industry 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 significantly 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 or the development of competing 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, distract the attention of management, and there can be no assurance that we would prevail.

Also, we have delivered certain technical data and information to the U.S. government under procurement contracts, and it may have unlimited rights to use that technical data and information. There can be no assurance that the U.S. government will not authorize others to use that data and information to compete with us.

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

Our industries are 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 do not and will not infringe issued patents, patents that may be issued in the future, or other intellectual property rights of others.

From time to time we have faced claims by third parties that our products or technology infringe their patents or other intellectual property rights, and we may face similar claims in the future. For example, we were sued for patent infringement in 2015, and we settled this claim in January 2016 with a payment of cash. Any claim of infringement could cause us to incur substantial costs defending against or settling the claim, even if the claim is invalid, and could distract the attention of our management. If any of our products are found to violate third-party proprietary rights, we may be required to pay substantial damages. In addition, we may be required to re-engineer our products or obtain licenses from third parties to continue to offer our products. Any efforts to re-engineer our products or obtain licenses on commercially reasonable terms may not be successful, which would prevent us from selling our products, and, in any case, could substantially increase our costs and have a material adverse effect on our business, financial condition and results of operations.

### **Risks related to indebtedness**

**Our credit facility contains financial and restrictive covenants that we may not satisfy, and that, if not satisfied, could result in the acceleration of any outstanding indebtedness and limit our ability to borrow additional funds. The credit facility also imposes restrictions that may limit our ability to pursue business opportunities.**

Although no amounts were outstanding under the agreements governing our secured credit facility as of December 31, 2021, the agreements subject us to various financial and other affirmative and negative covenants with which we must comply on an ongoing or periodic basis. These include financial covenants pertaining to a maximum consolidated leverage ratio and a minimum trailing four-quarter consolidated adjusted EBITDA of \$3.0 million and covenants requiring the mandatory prepayment of amounts outstanding under the revolver under specified circumstances. The agreements also subject us to various restrictions on our ability to engage in certain activities, such as raising capital or acquiring businesses. These restrictions may limit or restrict our cash flow and our ability to pursue business opportunities or strategies that we would otherwise consider to be in our best interests.

### **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 a significant portion of our net sales. We derived 60% and 64% of our revenues in 2021 and 2020, respectively, from sales to these foreign customers. We have foreign offices in Denmark, the United Kingdom, Singapore, Japan, Norway, Cyprus and the Philippines, as well as a subsidiary in Brazil that manages local sales. Nonetheless, substantially all of our personnel and operations for both our mobile connectivity equipment business and our inertial navigation business 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. We face a number of risks associated with our international business activities, which 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; 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 mobile connectivity products 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; restrictions on the sale of certain inertial navigation products to foreign military and government customers; 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.**

As a result of our international operations, we are subject 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 which we do business. 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 voice over Internet services using such equipment, and, in some cases, 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. In addition, 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.

**Exports of certain inertial navigation products are subject to the U.S. Export Administration Regulations and the International Traffic in Arms Regulations and require a license from the U.S. Department of State prior to shipment.**

We must comply with the United States Export Administration Regulations and the International Traffic in Arms Regulations, or ITAR. Certain of our products have military or strategic applications and are on the munitions list of the ITAR and require an individual validated license in order to be exported to certain jurisdictions. Any changes in export regulations or reclassifications of our products may further restrict the export of our products, and we may cease to be able to procure export licenses for our products under existing regulations. The length of time required by the licensing process can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restriction on the export of a product line or any amount of our products could cause a significant reduction in net sales.

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

**Reform of federal and state USF programs could increase the cost of our service to our customers, diminishing or eliminating our pricing advantage.**

The FCC has been considering reform or other modifications to its USF program, which, if implemented, could change the way we calculate our contribution to USF. In April 2012, the FCC released a proposal to consider reforms to the manner in which companies like us contribute to the federal USF program. In general, the proposal indicates that the FCC is considering changes to the companies that should contribute, how contributions should be assessed, and methods to improve the administration of the system. We cannot predict the outcome of this proceeding or its impact on our business. The changes in the U.S. administration may renew interest in completing this proceeding. Should the FCC adopt new contribution mechanisms or otherwise modify contribution obligations that increase our contribution burden, we will either need to raise the amount we currently collect from our customers to cover this obligation or absorb the costs, which would reduce our profit margins. The attractiveness of our services may also be reduced as compared to the services of our competitors that do not appear to contribute to USF, or do not do so to the same extent that we do.

**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 €10-20 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 some of 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.

**We may have exposure to additional tax liabilities, which could negatively impact our income tax expense, net income and cash flow.**

We are subject to income and other taxes in the U.S. and the foreign jurisdictions in which we operate. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires significant judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the ultimate tax outcome may differ materially from our estimates and may materially affect our income tax benefit or expense, net loss or income, and cash flows in the period in which such determination is made. As of December 31, 2021, we had gross uncertain tax positions of \$1.9 million, consisting of a \$1.3 million reduction to deferred tax assets and a \$0.6 million liability for uncertain tax positions.

Deferred tax assets are recognized for the expected future tax consequences of temporary differences between the carrying amount for financial reporting purposes and the tax bases of assets and liabilities, and for net operating losses and tax credit carry forwards. We have historically recorded valuation allowances to reduce our deferred tax assets to estimated realizable value. We review our deferred tax assets and valuation allowance requirements quarterly. If we are unable to demonstrate that it is more likely than not that we will not be able to generate sufficient future taxable income to realize the net carrying value of deferred tax assets, we will record a valuation allowance to reduce the deferred tax assets to estimated realizable value, which could result in a material income tax charge. As part of our review, we consider positive and negative evidence, including cumulative results of recent years.

**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 December 31, 2021, the trading price of our common stock ranged from \$6.36 to \$15.29. Many factors may cause the market price of our common stock to fluctuate, including variations in our quarterly results of operations; the introduction of new products and services by us or our competitors; changing needs of military customers; 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 industries; and the global macroeconomic and geopolitical environment. Broad market fluctuations may adversely affect the market price of our common stock. 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 1B. Unresolved Staff Comments**

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None.

**ITEM 2. Properties**

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The following table provides information about our principal facilities as of December 31, 2021.

| Location                 | Type                 | Segment | Principal Uses  | Approximate Square Footage | Ownership | Lease Expiration    |
|--------------------------|----------------------|---------|---|----------------------------|-----------|---------------------|
| Middletown, Rhode Island | Office               | Both    | Corporate headquarters, research and development, sales and service, marketing and administration | 75,000                     | Owned     | —                   |
| Middletown, Rhode Island | Plant and warehouse  | MC      | Manufacturing and warehousing (mobile connectivity products)                                      | 75,300                     | Owned     | —                   |
| Tinley Park, Illinois    | Plant and warehouse  | IN      | Manufacturing, warehousing, research and development (inertial navigation products)               | 101,000                    | Owned     | —                   |
| Kokkedal, Denmark        | Office and warehouse | MC      | European headquarters, sales, marketing and support   | 11,000                     | Leased    | Upon 3 month notice |

Both- mobile connectivity segment and inertial navigation segment

MC- mobile connectivity segment

IN- inertial navigation segment

### **ITEM 3. Legal Proceedings**

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From time to time, we are involved in litigation incidental to the conduct of our business. In the ordinary course of business, we are a party to inquiries, legal proceedings and claims including, from time to time, disagreements with vendors and customers.

### **ITEM 4. Mine Safety Disclosures**

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Not applicable.

## **PART II**

### **ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

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*Market Information.* Our common stock trades on the NASDAQ Global Select Market under the symbol "KVHI."

*Stockholders.* As of March 1, 2022, we had 65 holders of record of our common stock. This number does not include stockholders for whom shares were held by a nominee or in "street" name.

*Dividends.* We have never declared or paid cash dividends on our capital stock, and we have no plan to pay any cash dividends in the foreseeable future. We currently intend to retain any future earnings to finance our operations and future growth.

### **ITEM 6. Removed and reserved.**

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### **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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*The following discussion and analysis should be read in conjunction with the other financial information and consolidated financial statements and related notes appearing elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors, including those discussed under the heading "Item 1A. Risk Factors" and elsewhere in this annual report.*

#### **Overview**

We design, develop, manufacture and market mobile connectivity products and services for the marine and land mobile markets, and inertial navigation products for the defense and commercial markets. Our reporting segments are as follows:

- the mobile connectivity segment and
- the inertial navigation segment

Through these segments, we manufacture and sell our solutions in a number of major geographic areas, including internationally. We generate a majority of our revenues from various international locations, primarily consisting of Singapore, Canada, Europe, countries in Africa, other Asia/Pacific countries, the Middle East, and India.

#### *Management Transition and Restructuring*

On March 7, 2022, we announced that our President and Chief Executive Officer, Martin Kits van Heyningen, was retiring from his executive and Board roles after more than 40 years of service. The Board of Directors has engaged an executive search firm to identify a new Chief Executive Officer. Brent C. Bruun, our Chief Operating Officer, has been appointed as our interim President and Chief Executive Officer. We expect to incur one-time and ongoing costs associated with the management transition, including the cost of the executive search firm, professional fees, salary continuation for Mr. Kits van Heyningen of up to approximately \$0.5 million for advisory services and a one-time separation payment to Mr. Kits van Heyningen of \$0.2 million (inclusive of amounts he may have otherwise earned under our 2021 executive bonus plan), as well as expenses associated with continued vesting of his equity awards.

In March 2022, we also restructured our operations to reduce costs and better reflect a more focused strategy. We

reduced our workforce by approximately 10% and expect to reduce expenses from these actions. There will be one-time costs to be incurred in the first quarter of fiscal year 2022, with the benefit to earnings expected to begin in the second quarter of fiscal year 2022.

### **Mobile Connectivity Segment**

Our mobile connectivity segment offers satellite communications products and services. Our mobile connectivity products enable customers to receive voice and Internet services and live digital television via satellite services in marine vessels, recreational vehicles, buses and automobiles. We sell our mobile connectivity products through an extensive international network of dealers and distributors. We also sell and lease products to service providers and directly to end users.

Our mobile connectivity service sales include sales of satellite voice and Internet airtime services, engineering services provided under development contracts, sales from product repairs, and extended warranty sales. This segment's sales also include the distribution of entertainment, including news, sports, music, and movies, to commercial and leisure customers in the maritime, hotel, and retail markets through KVH Media Group. We typically recognize revenue from media content sales ratably over the period of the service contract. We provide, for monthly fixed fees and usage-based fees, satellite connectivity services for broadband Internet, data and VoIP service to our mini-VSAT Broadband customers. We also earn monthly usage fees for third-party satellite connectivity for voice, data and Internet services to our Inmarsat and Iridium customers who choose to activate their subscriptions with us.

Within the mobile connectivity segment, our marine leisure business is highly seasonal, and seasonality can also impact our commercial marine business. 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. 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.

### **Impairment Charge – KVH Media Group**

The COVID-19 pandemic impacted various aspects of our operations in 2020, and we monitored the impact of this global crisis carefully. We particularly monitored the operations of KVH Media Group, which depends heavily on travel and travel-related industries. The revenues and cash flows of KVH Media Group were significantly impacted by the global reduction in travel commencing with the start of the pandemic, as the global travel and related industries dropped to historically depressed levels. In response to the impact of the pandemic, particularly with respect to our KVH Media Group business, during our 2020 annual budgeting and long-term planning process, we conducted detailed discussions with many of our largest customers in the KVH Media Group to validate our assumptions, which indicated further expected delays in recovery, and certain areas of the KVH Media Group business that might not recover completely or at all. Accordingly, we updated our long-term revenue and cash flow forecast to reflect these most recent observations. Based on our other long-lived asset impairment analysis and annual goodwill impairment test, we recognized an intangible asset impairment charge of \$1.8 million and a goodwill impairment charge of \$8.7 million for the year ended December 31, 2020 related to KVH Media Group. Our annual impairment analysis in the fourth quarter of 2021 did not identify any further impairment. Please see Note 1(k) to our accompanying audited consolidated financial statements for additional information.

### **Inertial Navigation Segment**

Our inertial navigation segment offers precision fiber optic gyro (FOG)-based systems that enable platform and optical stabilization, navigation, pointing, and guidance. Our inertial navigation products also include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a variety of military vehicles, including tactical trucks and light armored vehicles. Our inertial navigation products are sold directly to U.S. and foreign governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, our inertial navigation products are used in numerous commercial products, such as navigation and positioning systems for various applications including autonomous platforms, precision mapping, dynamic surveying, train location control and track geometry measurement systems, industrial robotics and optical stabilization. Our inertial navigation service sales include engineering services provided under development contracts, product repairs and extended warranty sales.

### **PPP Loan Forgiveness**

In September 2021, the U.S. Small Business Administration approved our application for the forgiveness of the \$6.9 million loan (the PPP Loan) we received in May 2020 pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (as modified by the Paycheck Protection Flexibility Act of 2020, the CARES Act). As a result, we recognized \$7.0 million of other income during the three months ended September 30, 2021.

### **Summary of Net Sales**

The following table provides, for the periods indicated, our sales by segment for our continuing operations:

|                     | Year Ended December 31, |                   |
|---------------------|-------------------------|-------------------|
|                     | 2021                    | 2020              |
|                     | (in thousands)          |                   |
| Mobile connectivity | \$ 133,911              | \$ 119,453        |
| Inertial navigation | 37,856                  | 39,280            |
| Net sales           | <u>\$ 171,767</u>       | <u>\$ 158,733</u> |

Product sales within the mobile connectivity segment accounted for 17% and 18% of our consolidated net sales for 2021 and 2020, respectively. Sales of mini-VSAT Broadband airtime service accounted for 54% and 51% of our consolidated net sales for 2021 and 2020, respectively.

Within our inertial navigation segment, net sales of FOG-based guidance and navigation systems accounted for 16% of our consolidated net sales for both 2021 and 2020.

No other single product class accounted for 10% or more of consolidated net sales. No individual customer accounted for 10% or more of our consolidated net sales for 2021 or 2020.

We operate in a number of major geographic areas across the globe. We generate our international net sales, based upon customer location, primarily from customers located in Singapore, Canada, Europe, countries in Africa, other Asia/Pacific countries, the Middle East, and India. Our international net sales totaled 60% and 64% of our consolidated net sales for 2021 and 2020, respectively. Sales to Singapore customers represented 11% of our consolidated net sales for 2021. No other individual foreign country represented 10% or more of our consolidated net sales for 2021. No individual foreign country represented 10% or more of our consolidated net sales for 2020. See Note 12 to our accompanying audited consolidated financial statements for more information on our segments.

### **Customer-Funded Research and Development**

In addition to our internally funded research and development efforts, we also conduct research and development activities that are funded by our customers. These activities relate primarily to engineering studies, surveys, prototype development, program management, and standard product customization. In accordance with accounting principles generally accepted in the United States of America, we account for customer-funded research as service revenue, and we account for the associated research and development costs as costs of service and product sales. As a result, customer-funded research and development are not included in the research and development expense that we present in our statement of operations. The following table presents our total annual research and development effort, representing the sum of research costs of service and product sales and the operating expense of research and development as described in our statement of operations. Our management believes this information is useful because it provides a better understanding of our total expenditures on research and development activities.

|   | Year Ended December 31, |                  |
|---|-------------------------|------------------|
|   | 2021                    | 2020             |
|   | (in thousands)          |                  |
| Research and development expense presented in the statement of operations                       | \$ 17,766               | \$ 15,799        |
| Costs of customer-funded research and development included in costs of service sales            | 803                     | 2,935            |
| Total consolidated statements of operations expenditures on research and development activities | <u>\$ 18,569</u>        | <u>\$ 18,734</u> |

## Results of Operations

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

|  | Year Ended December 31, |         |
|--|-------------------------|---------|
|  | 2021                    | 2020    |
| Sales:                                     |                         |         |
| Product                                    | 38.9 %                  | 40.7 %  |
| Service                                    | 61.1                    | 59.3    |
| Net sales                                  | 100.0                   | 100.0   |
| Costs and expenses:                        |                         |         |
| Costs of product sales                     | 27.3                    | 26.2    |
| Costs of service sales                     | 37.9                    | 37.5    |
| Research and development                   | 10.3                    | 10.0    |
| Sales, marketing and support               | 18.2                    | 18.8    |
| General and administrative                 | 16.8                    | 15.4    |
| Goodwill impairment charge                 | —                       | 5.5     |
| Intangible asset impairment charge         | —                       | 1.1     |
| Total costs and expenses                   | 110.5                   | 114.5   |
| Loss from operations                       | (10.5)                  | (14.5)  |
| Interest income                            | 0.5                     | 0.6     |
| Interest expense                           | —                       | —       |
| Other income, net                          | 4.2                     | 0.1     |
| Loss before income taxes (benefit) expense | (5.8)                   | (13.8)  |
| Income tax (benefit) expense               | (0.1)                   | 0.1     |
| Net loss                                   | (5.7)%                  | (13.9)% |

### Years ended December 31, 2021 and 2020

#### *Net Sales*

As discussed further under the heading "Segment Discussion" below, product sales increased \$2.3 million, or 3%, to \$66.9 million in 2021 from \$64.6 million in 2020, due to an increase in mobile connectivity product sales of \$2.1 million and an increase in inertial navigation product sales of \$0.1 million. Service sales for 2021 increased \$10.8 million, or 11%, to \$104.9 million from \$94.1 million in 2020 primarily due to an increase in mobile connectivity service sales of \$12.3 million, partially offset by a decrease in inertial navigation service sales of \$1.5 million.

#### *Costs of Sales*

Costs of sales consists of costs of product sales and costs of service sales. Costs of sales increased in 2021 to \$112.0 million from \$101.1 million in 2020. The increase in costs of sales was driven by a \$5.6 million increase in costs of service sales and a \$5.2 million increase in costs of product sales. As a percentage of net sales, costs of sales was 65% and 64% for 2021 and 2020, respectively.

Our costs of product sales consist primarily of materials, manufacturing overhead, and direct labor used to produce our products. For 2021, costs of product sales increased by \$5.2 million, or 13%, to \$46.8 million from \$41.6 million in 2020. As a percentage of product sales, costs of product sales were 70% and 64% for 2021 and 2020, respectively. Mobile connectivity costs of product sales increased by \$2.4 million, or 11%, due to a \$2.3 million increase in our marine mobile connectivity cost of product sales and a \$0.2 million increase in our land mobile connectivity costs of product sales. Mobile connectivity costs of product sales as a percentage of mobile connectivity product sales were 80% and 77% for 2021 and 2020, respectively. Inertial navigation costs of product sales increased by \$2.8 million, or 14%, primarily due to a \$1.9 million increase in FOG and OEM costs of product sales and a \$1.6 million increase in expensed material and other manufacturing period costs, offset slightly by a \$0.7 million decrease in our TACNAV costs of product sales. Inertial navigation costs of product sales as a percentage of inertial navigation product sales was 62% and 55% for 2021 and 2020, respectively, which increased primarily due to product mix with a decrease in high margin TACNAV product sales.

Our costs of service sales consist primarily of satellite service capacity, depreciation, service network overhead expense associated with our mini-VSAT Broadband network infrastructure, direct network service labor, Inmarsat service costs, product installation costs, engineering and related direct costs associated with customer-funded research and development, media materials and distribution costs, and service repair materials. For 2021, costs of service sales increased by \$5.6 million, or 9%, to \$65.2 million from \$59.5 million in 2020. As a percentage of service sales, costs of service sales were 62% and 63% for 2021 and 2020, respectively. Mobile connectivity costs of service sales increased by \$7.8 million, or 14%, primarily due to a \$8.0 million increase in mini-VSAT airtime costs of service sales. Mobile connectivity costs of service sales as a percentage of mobile connectivity service sales were 62% for both 2021 and 2020. Inertial navigation costs of service sales decreased by \$2.1 million, or 67%, primarily due to a decrease in contract engineering services sales. Inertial navigation costs of service sales as a percentage of inertial navigation service sales was 103% and 124% for 2021 and 2020, respectively. The decrease in costs of inertial navigation service sales was primarily due to a decrease in costs relating to an engineering and services development contract from a major U.S. defense contractor.

### ***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 2021 increased by \$2.0 million, or 12%, to \$17.8 million from \$15.8 million in 2020. The primary reason for the increase in research and development expense was a \$2.1 million decrease in funded engineering expenses (and a corresponding reallocation of the expense of the underlying engineering work from costs of service sales (where funded engineering expenses are reflected) to research and development expense (where unfunded engineering expenses are reflected)) and a \$0.2 million increase in consulting fees. As a percentage of net sales, research and development expense was 10% in both 2021 and 2020.

We expect that in 2022 our research and development expense will decrease year-over-year due to the restructuring announced in March 2022 as we scale back our long-term research initiatives and focus on development initiatives related to our core products.

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 increased by \$1.4 million, or 5%, to \$31.2 million in 2021 from \$29.8 million in 2020. The increase in sales, marketing and support expense resulted primarily from a \$1.6 million increase in salaries and associated compensation, a \$0.3 million increase in external commission expenses, a \$0.2 million increase in bad debt expenses and a \$0.2 million increase in professional fees, partially offset by a \$0.8 million decrease in warranty expenses and a \$0.2 million decrease in travel expenses. As a percentage of net sales, sales, marketing and support expense was 18% and 19% in 2021 and 2020, respectively.

We expect that in 2022 our sales, marketing, and support expense will decrease year-over-year due to the March 2022 restructuring.

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 2021 increased by \$4.3 million, or 18%, to \$28.8 million from \$24.4 million for 2020. The increase in general and administrative expense resulted primarily from a \$3.5 million increase in professional fees, primarily arising from a stockholder's nomination of a competing slate of directors at our annual meeting of stockholders, and a \$1.0 million increase in

salaries and associated compensation. As a percentage of net sales, general and administrative expense was 17% and 15% for 2021 and 2020, respectively.

We expect that in 2022 our general and administrative expense will decrease year-over-year due to the March 2022 restructuring.

### ***Interest and Other Income, 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 decreased by \$0.1 million to \$0.9 million from \$1.0 million for 2020, primarily due to lower interest related to our marketable securities. Interest expense for 2021 increased to \$0.1 million from less than \$0.1 million for 2020. Other income, net for 2021 increased to \$7.2 million from other income, net of \$0.2 million for 2020 primarily due to the forgiveness of the PPP Loan.

### ***Income Tax (Benefit) Expense***

Income tax benefit for 2021 was \$0.1 million and related to losses generated in foreign jurisdictions. There was no associated tax benefit related to losses incurred in the U.S. due to a full valuation allowance on our related deferred tax assets. Income tax expense for 2020 was \$0.2 million due to taxes related to income earned in foreign jurisdictions and no associated tax benefit related to losses incurred in the U.S. due to a full valuation allowance on our related deferred tax assets.

The effective tax rate for 2021 was 1.1%. The primary driver of the difference between our effective tax rate as compared to the United States federal statutory rate was the change in the valuation reserve against the U.S. deferred tax assets, research tax credits, state taxes and the non-taxability of the forgiveness of the PPP Loan. The effective income tax rate of (0.8)% for 2020 differs from the U.S. federal statutory rate due to the impact of recording the valuation reserve against the U.S. deferred tax assets, which was partially offset by income taxed at lower foreign tax rates.

### **Segment Discussion - Years ended December 31, 2021 and 2020**

Our net sales by segment for 2021 and 2020 were as follows:

|                                  | For the year ended<br>December 31, |                   | Change              |             |
|----------------------------------|------------------------------------|-------------------|---------------------|-------------|
|                                  | 2021                               | 2020              | 2021 vs. 2020<br>\$ | %           |
|                                  | <i>(dollars in thousands)</i>      |                   |                     |             |
| <b>Mobile connectivity sales</b> |                                    |                   |                     |             |
| Product                          | \$ 30,012                          | \$ 27,863         | \$ 2,149            | 8 %         |
| Service                          | 103,899                            | 91,590            | 12,309              | 13 %        |
| <b>Net sales</b>                 | <b>\$ 133,911</b>                  | <b>\$ 119,453</b> | <b>\$ 14,458</b>    | <b>12 %</b> |
| <b>Inertial navigation sales</b> |                                    |                   |                     |             |
| Product                          | \$ 36,858                          | \$ 36,756         | \$ 102              | — %         |
| Service                          | 998                                | 2,524             | (1,526)             | (60)%       |
| <b>Net sales</b>                 | <b>\$ 37,856</b>                   | <b>\$ 39,280</b>  | <b>\$ (1,424)</b>   | <b>(4)%</b> |

Operating income (loss) by segment for 2021 and 2020 were as follows:

|                                    | For the year ended<br>December 31, |                    | Change          |             |
|------------------------------------|------------------------------------|--------------------|-----------------|-------------|
|                                    |                                    |                    | 2021 vs. 2020   |             |
|                                    | 2021                               | 2020               | \$              | %           |
|                                    | <i>(dollars in thousands)</i>      |                    |                 |             |
| Mobile connectivity <sup>(1)</sup> | \$ 2,749                           | \$ (10,071)        | \$ 12,820       | 127 %       |
| Inertial navigation                | 1,649                              | 4,799              | (3,150)         | (66)%       |
|                                    | \$ 4,398                           | \$ (5,272)         | \$ 9,670        | 183 %       |
| Unallocated                        | (22,344)                           | (17,665)           | (4,679)         | (26)%       |
| <b>Loss from operations</b>        | <b>\$ (17,946)</b>                 | <b>\$ (22,937)</b> | <b>\$ 4,991</b> | <b>22 %</b> |

(1) Mobile connectivity loss from operations for 2020 includes a \$10.5 million goodwill and intangible asset impairment charge. See Note 1(k) and Note 9 to our accompanying audited consolidated financial statements for more information.

### **Mobile Connectivity Segment**

Net sales in the mobile connectivity segment increased by \$14.5 million, or 12%, in 2021 as compared to 2020. Mobile connectivity product sales increased by \$2.1 million, or 8%, to \$30.0 million in 2021 from \$27.9 million in 2020. The increase was primarily the result of a \$1.1 million increase in TracVision product sales and \$0.9 million increase in mini-VSAT product sales. The increases in TracVision and mini-VSAT product sales was primarily due to an increase in unit sales volume.

Mobile connectivity service sales increased by \$12.3 million, or 13%, to \$103.9 million in 2021 from \$91.6 million in 2020. The increase was primarily due to a \$11.5 million increase in mini-VSAT service sales, driven by a 12% increase in subscribers, primarily as a result of AgilePlans. In addition, there was an increase of \$0.3 million in our content service sales and a \$0.3 million increase in service activation sales. The 12% increase in subscribers is measured as of noon on December 31, prior to the shutdown of the legacy Arclight network.

Consistent with our previously disclosed plans, we shut down our legacy Arclight network at midnight on December 31, 2021. Virtually all costs associated with that network have ceased, and while we will have additional costs on our HTS network to service the customers who have migrated from the legacy network, we expect to see a margin improvement in our mini-VSAT services. We are continuing with the migration/transition of legacy network customers who did not migrate by December 31, 2021. As of December 31, 2021, the monthly recurring revenue associated with those customers was approximately \$0.3 million. During January and February of 2022, we re-signed a total of \$0.1 million of recurring monthly revenue from former legacy customers. We expect to continue re-signing former legacy network customers throughout 2022, particularly in the spring as seasonal leisure customers commission their vessels for the summer. However, we do not expect that we will succeed in re-signing all of them. For the full year, we expect airtime revenue growth but at a lower rate than we saw in 2021.

Operating income (loss) for the mobile connectivity segment increased \$12.8 million in 2021 to an operating gain of \$2.7 million as compared to an operating loss of \$10.1 million for 2020. This increase in operating income was primarily due to the impairment of goodwill and other intangible assets of \$10.5 million in 2020 in KVH Media Group (which was not repeated in 2021), combined with an increase in sales less associated costs of \$4.3 million. This was partially offset by an increase in mobile connectivity operating expenses, excluding impairment, of \$1.9 million in 2021. The increase in operating expenses was primarily due to a \$1.8 million increase in salaries and associated compensation, primarily due to reinstating salaries and associated compensation that were temporarily reduced in connection with our response to COVID-19. In addition, there was a \$0.8 million increase in research and development expense, which was offset by a \$0.8 million decrease in warranty expenses.

## ***Inertial Navigation Segment***

Net sales in the inertial navigation segment decreased \$1.4 million, or 4%, in 2021 as compared to 2020. Inertial navigation product sales increased \$0.1 million, or less than 1%, to \$36.9 million in 2021 from \$36.8 million in 2020. The primary driver of the increase was an increase of \$3.0 million, or 12%, of sales of our FOG products, offset by a \$2.9 million, or 27%, decrease in TACNAV product sales (for more information, see “Risk Factors — Risks related to government sales — Sales of our FOG systems and TACNAV products generally consist of a few large orders, and the delay or cancellation of a single order will substantially reduce our net sales. Only a few customers account for a substantial portion of our inertial navigation revenues, and the loss of any of these customers could substantially reduce our net sales.”). Inertial navigation service sales decreased \$1.5 million, or 60%, to \$1.0 million in 2021 from \$2.5 million in 2020. The primary reason for the decrease was a \$1.7 million, or 82%, decrease in contracted engineering service revenues due to a decrease in services for a project for a major U.S. defense customer.

Operating income for the inertial navigation segment decreased \$3.2 million in 2021 to an operating gain of \$1.6 million as compared to an operating gain of \$4.8 million for 2020. This decrease was primarily due to the decrease in sales less associated costs of \$2.1 million, a \$0.9 million decrease in funded engineering expenses and a \$0.3 million increase in external commissions. This was partially offset by a \$0.3 million decrease in salaries and associated compensation.

## ***Unallocated***

Certain corporate-level costs have not been allocated because they are not directly attributable to either segment. These costs primarily consist of broad corporate functions, including executive, legal, finance, information technology, and costs associated with corporate actions.

Unallocated operating loss increased \$4.7 million, or 26%, in 2021 compared to 2020. The increase in unallocated operating loss was primarily the result of a \$3.5 million increase in professional fees, primarily arising from a stockholder’s nomination of a competing slate of directors at our annual meeting of stockholders, and a \$1.2 million increase in salaries and associated compensation, primarily due to reinstating salaries and associated compensation that were temporarily reduced in connection with our response to COVID-19. In addition, there was a \$0.3 million increase in computer expenses.

## **Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these 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 financial statements. Our significant accounting policies are summarized in Note 1 to our accompanying audited consolidated financial statements. 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 policies for goodwill, intangible assets, and other long-lived assets are the only estimates critical to an understanding and evaluation of our financial results for 2021, as discussed below.

## ***Goodwill, Intangible Assets, and other Long-Lived Assets***

We follow Accounting Standards Codification (ASC) Update No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment*. ASC 350 requires the completion of a goodwill impairment test at least annually based on either an optional qualitative assessment or a quantitative analysis comparing the estimated fair value of a reporting unit to its carrying value as of the test date. Any impairment charges would be based on the quantitative analysis. As a result of the 2020 annual impairment test, we recorded goodwill impairment charges of \$8.7 million and intangible asset impairment charges of \$1.8 million related to its KVH Media Group reporting unit. Prior to 2020, we had not recorded or incurred goodwill impairment charges.

For the October 1, 2020 test, due to the uncertainty that the global pandemic presented during 2020, we determined that we should perform a quantitative analysis of goodwill impairment. We performed this full quantitative analysis in the fourth quarter of 2020 in conjunction with our annual budgeting and long-term planning cycle. The revenues and cash flows of KVH Media Group have been significantly impacted by the global reduction in travel since the start of the pandemic. With the assistance of our valuation specialists, we utilized an income approach and market approach to estimate the fair value of our reporting units, based on assumptions that we believed to be reasonable. As an additional corroborative test of the reasonableness of those assumptions, we completed a reconciliation of our market capitalization and overall enterprise value to the fair value of all of our reporting units as of October 1, 2020. We estimated that, as of October 1, 2020, the fair value of our mobile broadband reporting unit exceeded its carrying value by 18%; however, the carrying value of our KVH Media Group reporting unit exceeded its fair value by \$10.2 million, which signified that an impairment had occurred and identified a triggering event to review our other long-lived assets for impairment. In accordance with ASC 360-10, *Property, Plant and Equipment – Impairment or Disposal of Long-Lived Assets* (ASC 360), with regard to our long-lived assets, we performed an undiscounted cash flow analysis and concluded that the carrying value of the asset group was not recoverable. Accordingly, we then performed an analysis to estimate the fair value of the other long-lived assets and recognized impairment charge of \$1.8 million against the distribution rights intangible asset, the amount by which the carrying value of the asset group’s other long-lived assets exceeded their estimated fair value, and a reduction in the associated deferred tax liability of \$0.3 million. As a result, we recognized an impairment charge to KVH Media Group’s goodwill in the amount of \$8.7 million, the remaining amount by which the carrying value exceeded its fair value.

For the October 1, 2021 test, we performed a qualitative assessment of goodwill impairment (Step 0) and concluded that for our mobile broadband reporting unit, it was more likely than not that, for this reporting unit, the fair value exceeded the carrying value. For the KVH Media Group reporting unit, we determined that it was necessary to perform the Step 1 quantitative analysis due to the ongoing global pandemic and its impacts. We utilized an income approach to estimate the fair value of the reporting unit. We believe that the assumptions used to estimate the fair value of our KVH Media Group reporting unit were reasonable. We estimated that, as of October 1, 2021, the fair value of KVH Media Group exceeded its carrying value by more than 20%. A negative trend of operating results or material changes to forecasted operating results could result in the requirement for additional interim goodwill impairment tests and the potential of future goodwill impairment charges, which could be material.

Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangible assets with estimated lives and other long-lived assets is measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, we will recognize an impairment loss for the amount by which the carrying value of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future operating cash flows or appraised values, depending on the nature of the asset. During 2021, there were no events or changes in circumstances that indicated any of the carrying amounts of our intangible assets or other long-lived assets may not be recoverable. See Note 9 to our accompanying audited consolidated financial statements for further discussion of goodwill and intangible assets.

## **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 a business in 2019 as well as bank financings and proceeds received from exercises of stock options and the issuance of stock.

In May 2020, we received a \$6.9 million loan from Bank of America, N.A. (the Lender), under the PPP, which was established under the CARES Act. Pursuant to the terms of the CARES Act, in August 2021, we applied for forgiveness of the full amount of the PPP Loan. On September 24, 2021, we received notification from the bank that, on September 19, 2021, the U.S. Small Business Administration (the SBA) had determined that the PPP Loan forgiveness application was approved, and the PPP Loan, including all accrued interest thereon, was paid in full by the SBA.

We believe that our cash and cash equivalents as of December 31, 2021, our estimated cash flows from operations, and borrowings available under our credit agreement will be sufficient to fund our operations and anticipated capital expenditures through at least the next twelve months based on our current operating plans. However, as the need or opportunity arises, we may seek to raise additional capital through public or private sales of securities or through additional debt financing. There are no assurances that we will be able to obtain any additional funding or that such funding will be available on terms acceptable to us, or at all.

We believe that our primary long-term capital requirements relate to AgilePlans revenue-generating assets, as well as servicing and repaying our satellite service capacity and equipment lease obligations. At December 31, 2021, we had outstanding non-cancellable satellite service capacity and other lease obligations with future minimum payments of \$63.0 million.

Our ability to make payments on our satellite service capacity and equipment lease obligations, as well as our ability to fund planned capital expenditures, will depend on our ability to generate cash in the future. Our ability to generate cash in the future will depend upon, among other things, the performance of our operating segments and general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

As of December 31, 2021, we had \$24.5 million in cash, cash equivalents, and marketable securities, of which \$2.7 million in cash equivalents was held in local currencies by our foreign subsidiaries. Our foreign subsidiaries held no marketable securities as of December 31, 2021. As of December 31, 2021, we had \$53.9 million in working capital.

### ***Operating Activities***

Operating activities provided \$2.9 million of net cash in 2021 and used \$3.1 million of net cash in 2020, an increase in net cash provided by operating activities of \$6.0 million. The \$6.0 million increase in net cash provided by operating activities is primarily due to a \$12.2 million decrease in net loss, a \$4.4 million decrease in cash outflows related to accounts payable and accrued expenses, a \$1.2 million decrease in cash outflows related to inventories, a \$1.0 million decrease in cash outflows related to other non-current assets and non-current contract assets, a \$0.6 million increase in cash inflows relating to accounts receivable, and a \$0.5 million decrease in cash outflows relating to prepaid expenses, other current assets, and current contract assets. Partially offsetting these items were a \$14.1 million decrease in non-cash items, which was primarily driven by the 2020 impairment charges to goodwill and intangible assets and the 2021 PPP loan forgiveness.

### ***Investing Activities***

Net cash used in investing activities for 2021 was \$6.7 million as compared to net cash used in investing activities of \$9.3 million for 2020. The \$2.6 million decrease in net cash used in investing activities was primarily the result of a \$7.2 million increase in net cash inflows relating to the purchase and sale of marketable securities. Partially offsetting these items was a \$4.7 million increase in capital expenditures.

### ***Financing Activities***

Net cash provided by financing activities for 2021 was \$2.6 million as compared to net cash provided by financing activities in 2020 of \$7.1 million. The \$4.5 million decrease in net cash provided by financing activities is primarily attributable to the \$6.9 million decrease in cash inflows from long-term borrowings. This decrease in cash inflows was partially offset by a \$1.7 million increase in cash inflows relating to proceeds from stock options exercises and the employee stock purchase plan, a \$0.4 million decrease in cash outflows relating to the repurchase of common stock and a \$0.3 million decrease in cash outflows for capital lease payments.

### ***Borrowing Arrangements***

#### ***Paycheck Protection Program Loan***

In May 2020, we received a \$6.9 million loan from the Lender under the PPP, which was established under the CARES Act and is administered by the SBA. The term of the PPP Loan was two years from the funding date, and the interest rate was 1.00%. Interest on the loan accrued from the funding date, but was deferred. In August 2021, we applied for forgiveness of the full amount of the PPP Loan. On September 24, 2021, we received notification from the Lender that, on September 19, 2021, the SBA had determined that the PPP Loan forgiveness application was approved, and the PPP Loan, including all accrued interest thereon, was paid in full by the SBA. The forgiveness of the PPP Loan is recognized in Other income, net in the accompanying consolidated statements of operations for the year ended December 31, 2021.

## *Line of Credit*

Effective October 30, 2018, we entered into an amended and restated three-year senior secured credit facility agreement (the 2018 Credit Agreement) with Bank of America, N.A., as Administrative Agent, and the lenders named from time to time as parties thereto (the 2018 Lenders), which included a reducing revolving credit facility (the 2018 Revolver) of up to \$20.0 million initially and reducing to \$15.0 million on December 31, 2019, to be used for general corporate purposes. Our obligations under the 2018 Credit Agreement are secured by substantially all of our assets and the pledge of equity interests in certain of our subsidiaries. As of December 31, 2021, no amounts were outstanding under the 2018 Revolver.

Borrowings under the 2018 Revolver are subject to the satisfaction of various conditions precedent at the time of each borrowing, including the continued accuracy of our representations and warranties and the absence of any default under the 2018 Credit Agreement. As of December 31, 2021, we were only able to draw on \$10.9 million of the \$15.0 million facility due to covenant restrictions.

The 2018 Credit Agreement contained two financial covenants, a maximum Consolidated Leverage Ratio and a minimum Consolidated Fixed Charge Coverage Ratio, each as defined in the 2018 Credit Agreement. The Consolidated Leverage Ratio could not exceed 2.50:1.00 through December 31, 2020 and may not exceed 2.00:1.00 after December 31, 2020. The Consolidated Fixed Charge Coverage Ratio may not be less than 1.25:1.00.

On July 30, 2020, we amended the 2018 Credit Agreement to reflect the incurrence of the PPP loan. Under the amended facility, the principal and interest on the PPP loan were not included in the maximum Consolidated Leverage Ratio or the minimum Consolidated Fixed Charge Coverage Ratio calculations except as to any portion of the PPP Loan that is not ultimately forgiven. In September 2021, the PPP Loan was forgiven in full.

On October 29, 2021, we amended the 2018 Credit Agreement to maintain the \$15.0 million 2018 Revolver, extend the maturity date of the 2018 Revolver to October 28, 2022, eliminate the Consolidated Fixed Charge Coverage Ratio financial covenant, add a minimum trailing four-quarter Consolidated Adjusted EBITDA financial covenant of \$3.0 million, modify the definition of Consolidated Adjusted EBITDA, modify the interest rate margins and certain lender fees, and transition the interest rate provisions based on LIBOR to the Bloomberg Short Term Bank Yield Index. In addition, Bank of America became the sole lender under the 2018 Credit Agreement.

The 2018 Credit Agreement imposes certain other affirmative and negative covenants, including without limitation covenants with respect to the payment of taxes and other obligations, compliance with laws, performance of material contracts, creation of liens, incurrence of indebtedness, investments, dispositions, fundamental changes, restricted payments, changes in the nature of our business, transactions with affiliates, corporate and accounting changes, and sale and leaseback arrangements.

## ***Other Matters***

We intend to continue to invest in the mini-VSAT Broadband network on a global basis. As part of the future potential capacity expansion, we plan to acquire additional satellite capacity from satellite operators, expend funds to seek regulatory approvals and permits, develop product enhancements in anticipation of the expansion, and hire additional personnel. From time to time we have entered into multi-year agreements to lease satellite capacity, and we have also purchased numerous satellite hubs to support the added capacity. These transactions can involve millions of dollars.

On October 4, 2019, our Board of Directors authorized a share repurchase program pursuant to which we were authorized to purchase up to one million shares of our common stock. The program expired on October 4, 2020. Under the repurchase program, at management's discretion, we were authorized to repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement.

In January 2020, we had repurchased 35,256 shares of common stock in open market transaction at a cost of approximately \$0.4 million. The total amount we repurchased under the October 4, 2019 repurchase program was 150,272 shares of common stock at an approximate cost of \$1.7 million. There were no repurchase programs outstanding during 2021.

## **Off-Balance Sheet Arrangements**

As of December 31, 2021, except for certain satellite service capacity obligations that are not considered operating or financing leases under ASC 842, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues, expenses, results of

operations, liquidity, capital expenditures or capital resources. Please see Note 6 to our accompanying audited consolidated financial statements for additional information on our satellite service capacity obligations.

### **Recently Issued Accounting Pronouncements**

See Note 1 of our accompanying audited consolidated financial statements for a description of recently issued accounting pronouncements including the dates of adoption and effects on our results of operations, financial position and disclosures.

### **ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk**

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Not applicable.

### **ITEM 8. Financial Statements and Supplementary Data**

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Our consolidated financial statements, together with the report of Grant Thornton LLP thereon, our independent registered public accounting firm, are presented after the signature page to this annual report. The report of Grant Thornton LLP on our internal control over financial reporting is included in Item 9A of this annual report.

### **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

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None.

### **ITEM 9A. Controls and Procedures**

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#### **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 December 31, 2021, the end of the period covered by this annual report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2021.

#### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is the process designed by and under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external reporting in accordance with accounting principles generally accepted in the United States of America. Management has evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2021 and concluded that it was effective.

Our independent registered public accounting firm, Grant Thornton LLP, has issued a report regarding the effectiveness of our internal control over financial reporting as of December 31, 2021, and that report is included in Item 9A in this annual report.

## **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 fourth quarter of 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting 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.

# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
KVH Industries, Inc.

## Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of KVH Industries, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated March 11, 2022 expressed an unqualified opinion on those financial statements.

## Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

## Definition and limitations of internal control over financial reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Boston, Massachusetts  
March 11, 2022

**ITEM 9B. Other Information**

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None.

**ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

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Not applicable.

**PART III**

We have omitted the information required in Part III of this annual report because we intend to include that information in our definitive proxy statement for our 2022 annual meeting of stockholders, which we expect to file before 120 days after the end of fiscal 2021. We incorporate the information required in Part III of this annual report by reference to our 2022 proxy statement.

**ITEM 10. Directors, Executive Officers and Corporate Governance**

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Except as set forth below, the information required by this item is incorporated by reference to our 2022 proxy statement.

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to our directors, executive officers and employees. Our Code of Business Conduct and Ethics can be found on our website, which is located at [www.kvh.com](http://www.kvh.com). We intend to make all required disclosures concerning any amendments to or waivers from, our Code of Business Conduct and Ethics on our website. Any person may request a copy of the Code of Business Conduct and Ethics, at no cost, by writing to us at the following address: KVH Industries, Inc., 50 Enterprise Center, Middletown, Rhode Island, 02842, Attention: Investor Relations.

**ITEM 11. Executive Compensation**

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The information required by this item is incorporated by reference to our 2022 proxy statement.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

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The information required by this item is incorporated by reference to our 2022 proxy statement.

**ITEM 13. Certain Relationships and Related Transactions and Director Independence**

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The information required by this item is incorporated by reference to our 2022 proxy statement.

**ITEM 14. Principal Accountant Fees and Services**

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The information required by this item is incorporated by reference to our 2022 proxy statement.

## PART IV

### ITEM 15. Exhibits and Financial Statement Schedules

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| (a) 1. Financial Statements  |      |
| Report of Independent Registered Public Accounting Firm (PCAOB ID Number 248)                  | 49   |
| Consolidated Balance Sheets as of December 31, 2021 and 2020                                   | 51   |
| Consolidated Statements of Operations for the years ended December 31, 2021 and 2020           | 52   |
| Consolidated Statements of Comprehensive Loss for the years ended December 31, 2021 and 2020   | 53   |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2020 | 54   |
| Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020           | 55   |
| Notes to Consolidated Financial Statements   | 56   |
| (a) 2. Financial Statement Schedules   |      |
| None.  |      |
| 3. Exhibits  |      |

| Exhibit No. | Description   | Filed with<br>this Form<br>10-K | 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         | 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         |
| 4.2         | Description of Capital Stock  |                                 | 8-K                       | August 4, 2020   | 4.1         |
| *10.1       | Amended and Restated 1996 Employee Stock Purchase Plan  |                                 | DEF 14A                   | April 25, 2016   | App. B      |
| *10.2       | Amended and Restated 2016 Equity and Incentive Plan   |                                 | DEF 14A                   | April 29, 2020   | App. A      |
| *10.3       | Form of Incentive Stock Option Agreement granted under the 2016 Equity and Incentive Plan     |                                 | 10-K                      | March 9, 2017    | 10.5        |
| *10.4       | Form of Non-Statutory Stock Option Agreement granted under the 2016 Equity and Incentive Plan |                                 | 10-K                      | March 9, 2017    | 10.6        |
| *10.5       | Form of Restricted Stock Agreement granted under the 2016 Equity and Incentive Plan           |                                 | 10-K                      | March 9, 2017    | 10.7        |
| *10.6       | Policy Regarding Automatic Grants to Non-Employee Directors                                   |                                 | 10-Q                      | May 6, 2009      | 10.23       |

| Exhibit No. | Description   | Filed with<br>this Form<br>10-K | Incorporated by Reference |                  |             |
|-------------|---|---------------------------------|---------------------------|------------------|-------------|
|             |   |                                 | Form                      | Filing Date      | Exhibit No. |
| 10.7        | Amended and Restated Credit Agreement dated as of October 30, 2018 among KVH Industries, Inc., Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer, and the Lenders party hereto  |                                 | 10-Q                      | October 31, 2018 | 10.1        |
| 10.8        | Amended and Restated Security Agreement dated as of October 30, 2018 between KVH Industries, Inc. and Bank of America, N.A., as Administrative Agent  |                                 | 10-Q                      | October 31, 2018 | 10.2        |
| 10.9        | Amended and Restated Pledge Agreement dated as of October 30, 2018 between KVH Industries, Inc. and Bank of America, N.A., as Administrative Agent with respect to KVH Industries A/S   |                                 | 10-Q                      | October 31, 2018 | 10.3        |
| 10.10       | Amended and Restated Pledge Agreement dated as of October 30, 2018 between KVH Industries, Inc. and Bank of America, N.A., as Administrative Agent with respect to KVH Industries U.K. Limited  |                                 | 10-Q                      | October 31, 2018 | 10.4        |
| 10.11       | Consent dated as of May 13, 2019 among KVH Industries, Inc., as Borrower, Bank of America, N.A., as Lender and Administrative Agent, and The Washington Trust Company, as Lender, under the Amended and Restated Credit Agreement dated as of October 30, 2018 among such parties |                                 | 8-K                       | May 16, 2019     | 10.4        |
| 10.12       | First Amendment to Amended and Restated Credit Agreement as of July 30, 2020 by and among KVH Industries, Inc., Bank of America, N.A., and The Washington Trust Company   |                                 | 10-Q                      | July 31, 2020    | 10.3        |
| 10.13       | Second Amendment to Amended and Restated Credit Agreement dated as of October 29, 2021 by and among KVH Industries, Inc., and Bank of America, N.A.   |                                 | 10-Q                      | November 4, 2021 | 10.1        |
| 10.14       | Cooperation Agreement, dated as of April 8, 2020, by and among KVH Industries, Inc., Vintage Capital Management, LLC, and Kahn Capital Management, LLC  |                                 | 8-K                       | April 9, 2020    | 10.1        |
| 10.15       | Promissory Note dated as of May 1, 2020 and executed on May 3, 2020 by KVH Industries, Inc., in favor of Bank of America, N.A.  |                                 | 8-K                       | May 6, 2020      | 10.1        |
| 21.1        | List of Subsidiaries  | X                               |                           |                  |             |
| 23.1        | Consent of Grant Thornton LLP   | X                               |                           |                  |             |
| 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        | Rule 1350 certification   | X                               |                           |                  |             |

|       |   |   |
|-------|---|---|
| 101.1 | Interactive Data File regarding (a) our Consolidated Balance Sheets as of December 31, 2021 and 2020, (b) our Consolidated Statements of Operations for the years ended December 31, 2021 and 2020, (c) our Consolidated Statements of Comprehensive Loss for the years ended December 31, 2021 and 2020, (d) our Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2020, (e) our Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020, and (e) the Notes to such Consolidated Financial Statements | X |
| 104.1 | Cover Page Interactive Data File (embedded within the Inline XBRL document)   | X |

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\* Management contract or compensatory plan.

**ITEM 16. Form 10-K Summary**

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None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or Section 15(d) 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.

KVH Industries, Inc.

Date: March 11, 2022

By: /s/ BRENT C. BRUUN

**Brent C. Bruun**  
**Interim President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

| <u>Name</u>   | <u>Title</u>   | <u>Date</u>    |
|---|--|----------------|
| <u>/S/ BRENT C. BRUUN</u><br>Brent C. Bruun                       | Interim President and Chief Executive Officer<br>(Principal Executive Officer) | March 11, 2022 |
| <u>/S/ ROGER A. KUEBEL</u><br>Roger A. Kuebel                     | Chief Financial Officer (Principal Financial Officer)                          | March 11, 2022 |
| <u>/S/ JENNIFER L. BAKER</u><br>Jennifer L. Baker                 | Vice President, Chief Accounting Officer<br>(Principal Accounting Officer)     | March 11, 2022 |
| <u>/S/ CATHY-ANN MARTINE-DOLECKI</u><br>Cathy-Ann Martine-Dolecki | Chair of the Board of Directors  | March 11, 2022 |
| <u>/S/ DANELLE M. BARRETT</u><br>Danelle M. Barrett               | Director   | March 11, 2022 |
| <u>/S/ JAMES S. DODEZ</u><br>James S. Dodez                       | Director   | March 11, 2022 |
| <u>/S/ CIELO M. HERNANDEZ</u><br>Cielo M. Hernandez               | Director   | March 11, 2022 |
| <u>/S/ CHARLES R. TRIMBLE</u><br>Charles R. Trimble               | Director   | March 11, 2022 |

# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
KVH Industries, Inc.

## Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of KVH Industries, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive loss, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 11, 2022 expressed an unqualified opinion.

## Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

## Critical audit matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

### *Recognition of satellite connectivity services revenue*

As described further in Note 1(e) to the financial statements, the Company’s satellite connectivity services revenue, including broadband Internet, data and VoIP services, is recognized monthly based primarily on contracted fixed-fee schedules as well as any overages for minutes or megabytes of traffic processed. We identified satellite connectivity services revenue as a critical audit matter.

The principal consideration for our determination that satellite connectivity service sales transactions are a critical audit matter is the complexity of the process used by management for recognizing revenue, given the diversity of data sources, and the number of systems involved, which includes third party systems. This requires a high degree of audit subjectivity and effort in designing and performing audit procedures to evaluate whether the satellite connectivity services revenue is recognized properly.

Our audit procedures related to the satellite connectivity services revenue included the following, among others:

- We tested the design and operating effectiveness of controls related to management’s review and validation of data coming from third parties that is used as an input in revenue recognition as well as the controls over review of appropriate revenue recognition for this revenue stream.

- We performed detailed transaction testing over the occurrence and accuracy of a sample of the revenue recognized by validating usage data from third party reports which is utilized in customer billing.
- We obtained the billing service provider's SOC-1 report, bridge letter (as applicable), and Management's internal control review of the SOC-1 report. We verified that Management had assessed key complementary user entity controls ("CUEC"s). We inspected the SOC-1 report to verify that there were no failed controls, and that the opinion was unqualified. In addition, we tested key controls that were responsive to the CUECs.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2014.

Boston, Massachusetts

March 11, 2022

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

|   | December 31,             |                          |
|---|--------------------------|--------------------------|
|   | 2021                     | 2020                     |
| <b>ASSETS</b>   |                          |                          |
| Current assets:   |                          |                          |
| Cash and cash equivalents   | \$ 11,376                | \$ 12,578                |
| Marketable securities   | 13,147                   | 25,141                   |
| Accounts receivable, net of allowance for doubtful accounts of \$1,636 and \$1,596 as of December 31, 2021 & December 31, 2020, respectively  | 33,648                   | 33,687                   |
| Inventories, net  | 24,640                   | 24,674                   |
| Prepaid expenses and other current assets   | 3,789                    | 3,894                    |
| Current contract assets   | 1,230                    | 1,086                    |
| Total current assets  | <u>87,830</u>            | <u>101,060</u>           |
| Property and equipment, net   | 60,114                   | 56,273                   |
| Intangible assets, net  | 1,287                    | 2,254                    |
| Goodwill  | 6,570                    | 6,592                    |
| Right of use assets   | 3,055                    | 6,893                    |
| Other non-current assets  | 6,778                    | 7,785                    |
| Non-current contract assets   | 3,104                    | 2,661                    |
| Deferred income tax asset   | 56                       | 73                       |
| <b>Total assets</b>   | <u><b>\$ 168,794</b></u> | <u><b>\$ 183,591</b></u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                          |                          |
| Current liabilities:  |                          |                          |
| Accounts payable  | \$ 11,265                | \$ 11,400                |
| Accrued compensation and employee-related expenses  | 7,053                    | 7,156                    |
| Accrued other   | 7,892                    | 6,597                    |
| Accrued product warranty costs  | 1,179                    | 1,812                    |
| Current portion of long-term debt   | —                        | 4,992                    |
| Contract liabilities  | 3,989                    | 4,445                    |
| Current operating lease liability   | 1,912                    | 3,826                    |
| Liability for uncertain tax positions   | 592                      | 560                      |
| Total current liabilities   | <u>33,882</u>            | <u>40,788</u>            |
| Other long-term liabilities   | 30                       | 674                      |
| Long-term operating lease liability   | 1,224                    | 3,204                    |
| Long-term contract liabilities  | 4,466                    | 4,688                    |
| Long-term debt, excluding current portion   | —                        | 1,935                    |
| Deferred income tax liability   | 215                      | 418                      |
| <b>Total liabilities</b>  | <u><b>\$ 39,817</b></u>  | <u><b>\$ 51,707</b></u>  |
| Commitments and contingencies (Notes 1, 5, 6, 15 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, 20,342,695 and 19,862,534 shares issued at December 31, 2021 and December 31, 2020, respectively; and 18,910,001 and 18,429,840 shares outstanding at December 31, 2021 and December 31, 2020, respectively | 203                      | 199                      |
| Additional paid-in capital  | 156,199                  | 149,170                  |
| Accumulated deficit   | (12,165)                 | (2,402)                  |
| Accumulated other comprehensive loss  | (3,409)                  | (3,232)                  |
|   | <u>140,828</u>           | <u>143,735</u>           |
| Less: treasury stock at cost, 1,432,694 shares as of December 31, 2021 and December 31, 2020  | (11,851)                 | (11,851)                 |
| <b>Total stockholders' equity</b>   | <u><b>128,977</b></u>    | <u><b>131,884</b></u>    |
| <b>Total liabilities and stockholders' equity</b>   | <u><b>\$ 168,794</b></u> | <u><b>\$ 183,591</b></u> |

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | Year Ended December 31, |                    |
|---|-------------------------|--------------------|
|   | 2021                    | 2020               |
| <b>Sales:</b>   |                         |                    |
| Product   | \$ 66,870               | \$ 64,619          |
| Service   | 104,897                 | 94,114             |
| Net sales   | 171,767                 | 158,733            |
| <b>Costs and expenses:</b>                            |                         |                    |
| Costs of product sales                                | 46,810                  | 41,608             |
| Costs of service sales                                | 65,162                  | 59,517             |
| Research and development                              | 17,766                  | 15,799             |
| Sales, marketing and support                          | 31,181                  | 29,811             |
| General and administrative                            | 28,794                  | 24,445             |
| Goodwill impairment charge                            | —                       | 8,732              |
| Intangible asset impairment charge                    | —                       | 1,758              |
| Total costs and expenses                              | 189,713                 | 181,670            |
| Loss from operations                                  | (17,946)                | (22,937)           |
| Interest income                                       | 886                     | 996                |
| Interest expense                                      | 56                      | 18                 |
| Other income, net                                     | 7,245                   | 193                |
| Loss before income tax (benefit) expense              | (9,871)                 | (21,766)           |
| Income tax (benefit) expense                          | (108)                   | 174                |
| <b>Net loss</b>                                       | <b>\$ (9,763)</b>       | <b>\$ (21,940)</b> |
| <b>Net loss per common share</b>                      |                         |                    |
| Basic and diluted                                     | <b>\$ (0.54)</b>        | <b>\$ (1.24)</b>   |
| <b>Weighted average number of shares outstanding:</b> |                         |                    |
| Basic and diluted                                     | <b>18,217</b>           | <b>17,669</b>      |

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | <u>Year Ended December 31,</u> |                    |
|---|--------------------------------|--------------------|
|   | <u>2021</u>                    | <u>2020</u>        |
| <b>Net loss</b>                                     | \$ (9,763)                     | \$ (21,940)        |
| <b>Other comprehensive loss, net of tax:</b>        |                                |                    |
| Foreign currency translation adjustment             | (177)                          | (465)              |
| Other comprehensive loss, net of tax <sup>(1)</sup> | (177)                          | (465)              |
| <b>Total comprehensive loss</b>                     | <u>\$ (9,940)</u>              | <u>\$ (22,405)</u> |

(1) Tax impact was nominal for all periods.

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | Common Stock  |               | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury Stock |                    | Total<br>Stockholders'<br>Equity |
|---|---------------|---------------|----------------------------------|--|---|----------------|--------------------|----------------------------------|
|   | Shares        | Amount        |                                  |  |   | Shares         | Amount             |                                  |
| <b>Balance at December 31, 2019</b>   | <b>19,399</b> | <b>\$ 194</b> | <b>\$ 144,485</b>                | <b>\$ 19,538</b>                                 | <b>\$ (2,767)</b>                             | <b>(1,397)</b> | <b>\$ (11,461)</b> | <b>\$ 149,989</b>                |
| Net loss  | —             | —             | —                                | (21,940)   | —   | —              | —                  | (21,940)                         |
| Other comprehensive loss  | —             | —             | —                                | —  | (465)   | —              | —                  | (465)                            |
| Stock-based compensation  | —             | —             | 3,462                            | —  | —   | —              | —                  | 3,462                            |
| Issuance of common stock under employee stock purchase plan                           | 44            | —             | 336                              | —  | —   | —              | —                  | 336                              |
| Acquisition of treasury stock   | —             | —             | —                                | —  | —   | (36)           | (390)              | (390)                            |
| Exercise of stock options and issuance of restricted stock awards, net of forfeitures | 420           | 5             | 887                              | —  | —   | —              | —                  | 892                              |
| <b>Balance at December 31, 2020</b>   | <b>19,863</b> | <b>\$ 199</b> | <b>\$ 149,170</b>                | <b>\$ (2,402)</b>                                | <b>\$ (3,232)</b>                             | <b>(1,433)</b> | <b>\$ (11,851)</b> | <b>\$ 131,884</b>                |
| Net loss  | —             | —             | —                                | (9,763)  | —   | —              | —                  | (9,763)                          |
| Other comprehensive loss  | —             | —             | —                                | —  | (177)   | —              | —                  | (177)                            |
| Stock-based compensation  | —             | —             | 4,109                            | —  | —   | —              | —                  | 4,109                            |
| Issuance of common stock under employee stock purchase plan                           | 26            | —             | 215                              | —  | —   | —              | —                  | 215                              |
| Exercise of stock options and issuance of restricted stock awards, net of forfeitures | 454           | 4             | 2,705                            | —  | —   | —              | —                  | 2,709                            |
| <b>Balance at December 31, 2021</b>   | <b>20,343</b> | <b>\$ 203</b> | <b>\$ 156,199</b>                | <b>\$ (12,165)</b>                               | <b>\$ (3,409)</b>                             | <b>(1,433)</b> | <b>\$ (11,851)</b> | <b>\$ 128,977</b>                |

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | Year Ended December 31, |                   |
|---|-------------------------|-------------------|
|   | 2021                    | 2020              |
| <b>Cash flows from operating activities:</b>  |                         |                   |
| Net loss  | \$ (9,763)              | \$ (21,940)       |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities:   |                         |                   |
| Provision for doubtful accounts   | 530                     | 333               |
| Depreciation and amortization   | 14,601                  | 11,663            |
| Impairment charge to goodwill and intangibles   | —                       | 10,490            |
| Deferred income taxes   | (186)                   | (283)             |
| Loss on disposals of fixed assets   | 494                     | 713               |
| Compensation expense related to stock-based awards and employee stock purchase plan         | 4,109                   | 3,462             |
| Unrealized currency translation (gain) loss   | (112)                   | 151               |
| PPP loan forgiveness  | (6,979)                 | —                 |
| Changes in operating assets and liabilities:  |                         |                   |
| Accounts receivable   | (506)                   | (1,123)           |
| Inventories   | 33                      | (1,205)           |
| Prepaid expenses, other current assets, and current contract assets                         | 147                     | (314)             |
| Other non-current assets and non-current contract assets                                    | 509                     | (484)             |
| Accounts payable  | (251)                   | (3,274)           |
| Contract liabilities and long-term contract liabilities                                     | (665)                   | (817)             |
| Accrued compensation, product warranty and other  | 945                     | (458)             |
| Other long-term liabilities   | 3                       | 7                 |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>\$ 2,909</b>         | <b>\$ (3,079)</b> |
| <b>Cash flows from investing activities:</b>  |                         |                   |
| Capital expenditures  | (18,740)                | (14,066)          |
| Cash paid for acquisition of intangible assets  | (62)                    | (75)              |
| Proceeds from sale of fixed assets  | 100                     | 80                |
| Purchases of marketable securities  | (6)                     | (8,734)           |
| Maturities and sales of marketable securities   | 12,000                  | 13,500            |
| <b>Net cash used in investing activities</b>  | <b>\$ (6,708)</b>       | <b>\$ (9,295)</b> |
| <b>Cash flows from financing activities:</b>  |                         |                   |
| Proceeds from PPP loan  | —                       | 6,927             |
| Proceeds from stock options exercised and employee stock purchase plan                      | 2,939                   | 1,216             |
| Repurchase of common stock  | —                       | (390)             |
| Payment of finance lease  | (294)                   | (624)             |
| <b>Net cash provided by financing activities</b>  | <b>\$ 2,645</b>         | <b>\$ 7,129</b>   |
| Effect of exchange rate changes on cash and cash equivalents                                | (48)                    | (542)             |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(1,202)</b>          | <b>(5,787)</b>    |
| <b>Cash and cash equivalents at beginning of period</b>                                     | <b>12,578</b>           | <b>18,365</b>     |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 11,376</b>        | <b>\$ 12,578</b>  |
| Supplemental disclosure of cash flow information:   |                         |                   |
| Cash paid for income taxes, net of refunds  | \$ 419                  | \$ 1,051          |
| Changes in accrued other and accounts payable related to property and equipment additions   | \$ 384                  | \$ 165            |
| Right of use assets (ROU) assets arising from entering into new operating lease obligations | \$ 407                  | \$ 3,032          |

*See accompanying Notes to Consolidated Financial Statements.*

**KVH INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**  
**(in thousands, except per share amounts)**

**(1) Summary of Significant Accounting Policies**

**(a) Description of Business**

KVH Industries, Inc. (together with its subsidiaries, the Company or KVH) designs, develops, manufactures and markets mobile connectivity products and services for the marine and land markets, and inertial navigation products for both the commercial and defense markets. KVH's reporting segments are as follows:

- the mobile connectivity segment and
- the inertial navigation segment

KVH's mobile connectivity products enable customers to receive voice and Internet services, and live digital television via satellite services in marine vessels, recreational vehicles, buses and automobiles. KVH sells and leases its mobile connectivity products through an extensive international network of dealers and distributors. KVH also sells and leases products directly to end users.

KVH's mobile connectivity service sales represent primarily sales earned from satellite voice and Internet airtime services. KVH provides, for monthly fixed and usage fees, satellite connectivity services, including broadband Internet, data and VoIP services, to its TracPhone V-series customers. AgilePlans, a mini-VSAT Broadband service offering, is a monthly subscription model providing global connectivity to commercial maritime customers, including hardware, installation, broadband Internet, Voice over Internet Protocol (VoIP), entertainment and training content and global support for a monthly fee with no minimum commitment. KVH offers AgilePlans customers a variety of airtime data plans with varying data speeds and fixed data usage levels with overage charges per megabyte, which is similar to the plans that the Company offers to its other customers. The Company recognizes the monthly subscription fee as service revenue over the service delivery period. The Company retains ownership of the hardware that it provides to AgilePlans customers, who must return the hardware to KVH if they decide to terminate the service. Because KVH does not sell the hardware under AgilePlans, the Company does not recognize any product revenue when the hardware is deployed to an AgilePlans customer. KVH records the cost of the hardware used by AgilePlans customers as revenue-generating assets and depreciates the cost over an estimated useful life of five years. Since the Company is retaining ownership of the hardware, it does not accrue any warranty costs for AgilePlans hardware; however, any maintenance costs on the hardware is expensed in the period these costs are incurred.

Mobile connectivity service sales also include the distribution of commercially licensed entertainment, including news, sports, music, and movies to commercial and leisure customers in the maritime, hotel, and retail markets through the KVH Media Group. KVH also earns monthly usage fees from third-party satellite connectivity services, including voice, data and Internet services, provided to its Inmarsat and Iridium customers who choose to activate their subscriptions with KVH. Mobile connectivity service sales also include engineering services provided under development contracts, sales from product repairs, and extended warranty sales.

KVH's inertial navigation products offer precision fiber optic gyro (FOG)-based systems that enable platform and optical stabilization, navigation, pointing and guidance. KVH's inertial navigation products also include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a variety of military vehicles, including tactical trucks and light armored vehicles. KVH's inertial navigation products are sold directly to U.S. and foreign governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, KVH's inertial navigation technology is used in numerous commercial products, such as navigation and positioning systems for various applications including autonomous platforms, precision mapping, dynamic surveying, train location control and track geometry measurement systems, industrial robotics and optical stabilization.

KVH's inertial navigation service sales include product repairs, engineering services provided under development contracts and extended warranty sales.

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**(b) Principles of Consolidation**

The accompanying consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America. All of the operating expenses of the subsidiaries that serve as the Company's European, Singaporean, Japanese, and Brazilian international distributors are reflected within sales, marketing, and support within the accompanying consolidated statements of operations. All significant intercompany accounts and transactions have been eliminated in consolidation.

**(c) 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 2021 consolidated financial statements reflect a \$6,979 gain in other income related to the U.S. Small Business Administration's forgiveness of the PPP loan during the third quarter of 2021. See Note 5. The 2020 consolidated financial statements reflect a \$10,490 goodwill and intangible impairment charge on the KVH Media Group reporting unit within the mobile connectivity segment. See Note 1(k) and Note 9. On an on-going basis, the Company evaluates its significant estimates, including those related to terminal values and other assumptions and estimates used to evaluate the recoverability of long-lived assets and goodwill and estimated fair values of long-lived assets, including goodwill, amortization methods and periods.

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.

**(d) Concentration of Credit Risk and Single Source Suppliers**

*Cash, cash equivalents and marketable securities.* The Company is potentially subject to financial instrument concentration of credit risk through its cash, cash equivalent and marketable securities investments. To mitigate these risks the Company maintains cash, cash equivalents and marketable securities with reputable and nationally recognized financial institutions. As of December 31, 2021, \$13,147 classified as marketable securities was held by Wells Fargo and substantially all of the cash and cash equivalents were held by Bank of America, N.A. See Note 2 for a description of marketable securities.

*Trade accounts receivable.* Concentrations of risk (see Note 11) 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 potential bad debts and evaluates, on a monthly basis, the adequacy of those reserves based upon historical experience and its expectations for future collectability concerns. The Company performs ongoing credit evaluations of the financial condition of its customers and generally does not require collateral. Activity within the Company's allowance for doubtful accounts for the periods presented is as follows:

|   | 2021            | 2020            |
|---|-----------------|-----------------|
| Beginning balance                               | \$ 1,596        | \$ 1,589        |
| Additions (subtractions)                        | 530             | 333             |
| Deductions (write-offs/recoveries) from reserve | (490)           | (326)           |
| Ending balance                                  | <u>\$ 1,636</u> | <u>\$ 1,596</u> |

*Revenue and operations.* 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.

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**(e) Revenue Recognition**

In accordance with Accounting Standards Codification (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. To achieve this core principle, the Company applies the following five steps:

*1) Identify the contract with a customer*

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the products and services to be transferred and identifies the payment terms related to these products and services, (ii) the contract has commercial substance, and (iii) the Company determines that collection of substantially all consideration for products and services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors, including the customer's historical payment pattern or, in the case of a new customer, published credit and financial information pertaining to the customer.

*2) Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the product or service is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised products and services, the Company must apply judgment to determine whether promised products and services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised products and services are accounted for as a combined performance obligation.

*3) Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products and services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method, depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.

*4) Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. However, if a series of distinct products or services that are substantially the same qualify as a single performance obligation in a contract with variable consideration, the Company must determine if the variable consideration is attributable to the entire contract or to a specific part of the contract. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct product or service that forms part of a single performance obligation. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

*5) Recognize revenue when or as the Company satisfies a performance obligation*

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised product or service to a customer.

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*Product sales*

Revenue from product sales is recognized when control of the goods is transferred to the customer, which generally occurs at the Company's plant or warehouse upon delivery to the carrier for shipment. Revenue related to shipping and handling is recognized when the products are shipped and the associated costs are accrued for based on the Company's election to account for shipping and handling activities as a fulfillment of the promise to transfer the products and not as a combined promise.

For certain inertial navigation product sales, customer acceptance or inspection may be required before control of the goods is transferred to the customer. For those sales, revenue is recognized after notification of customer acceptance and the goods have been delivered to the carrier for shipment. In certain circumstances customers may request a bill-and-hold arrangement. Under these bill-and-hold arrangements, revenue is recognized when the Company has fulfilled all of its performance obligations, the units are segregated for the specific customer only, and the goods are ready for physical transfer to the customer in accordance with their defined contract delivery schedule.

The Company's standard payment terms for product sales are generally Net 30. Under certain limited conditions, the Company, at its sole discretion, provides for the return of goods. No product is accepted for return and no credit is allowed on any returned product unless the Company has granted and confirmed prior written permission by means of appropriate authorization. The Company establishes reserves for potential sales returns, credits, and allowances, and evaluates, on a monthly basis, the adequacy of those reserves based upon historical experience and expectations for the future.

*Contracts with multiple performance obligations*

The Company sells products and services through arrangements that in certain instances bundle VSAT equipment, satellite connectivity and other services. For these arrangements, the Company has determined that the performance obligations are not distinct in the context of the contracts with certain customers. The Company recognizes product revenue under these arrangements over the estimated satellite connectivity customer life, which is estimated to be five years based on historical evidence.

*Satellite connectivity and media content service sales*

Directly sold and re-sold satellite connectivity service for voice, data and Internet is recognized monthly based primarily on contracted fixed-fee schedules as well as any overages for minutes or megabytes of traffic processed. The Company has evaluated whether it obtains control of the services that are being transferred to the customer in assessing gross revenue reporting as principal verse net revenue reporting as agent for its satellite connectivity service sales and its payments to the applicable service providers. Based on the Company's assessment of the indicators, the Company has determined that gross revenue reporting as a principal is appropriate. The applicable indicators of gross revenue reporting include, but are not limited to, the following:

- The Company is the primary obligor in its arrangements with its subscribers. The Company manages all interactions with the subscribers, while satellite connectivity service providers do not interact with the subscribers. In addition, the Company assumes the entire performance risk under its arrangements with the subscribers and in the event of a performance issue, the Company may incur reductions in fees without regard for any recourse that the Company may have with the applicable satellite connective service providers.
- The Company has discretion in establishing pricing, as the pricing under its arrangements with the subscribers is negotiated through a contracting process. The Company then separately negotiates the fees with the applicable satellite service providers.
- The Company has complete discretion in determining which satellite service providers it will contract with.

As a result, the Company has determined that it earns revenue (as a principal) from the delivery of satellite connectivity services to its subscribers and records all satellite connectivity service sales to subscribers as gross sales. All associated regulatory service fees and costs are recorded net in the consolidated financial statements.

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The Company sells prepaid airtime services in the form of prepaid cards. A liability is established upon purchase equal to the cash paid for the prepaid card. The Company recognizes revenue from the prepaid services upon the use of the prepaid card by the customer. The Company does not offer refunds for unused prepaid services. Prepaid airtime services have not been a significant portion of the Company's total sales.

Media content sales include the Company's distribution of commercially licensed news, sports, movies and music content for commercial and leisure customers in the maritime, hotel, and retail markets. The Company typically recognizes revenue from media content sales ratably over the period of the service contract.

The accounting estimates related to the recognition of satellite connectivity and media content service sales require the Company to make assumptions about future billing adjustments for disputes with subscribers as well as unauthorized usage. The Company recognizes the monthly subscription fee as service revenue over the service delivery period. Under AgilePlans, the Company retains ownership of the hardware that it provides to these 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.

*Inertial navigation service sales*

The Company engages in contracts for development, production, and services activities related to standard product modification or enhancement. The Company considers the nature of these contracts and the types of products and services provided when determining the proper accounting for a particular contract. Customer and government-agency contracted engineering service and sales under development contracts are recognized primarily during the periods in which the Company performs the service or development efforts in accordance with the agreement. Services performed under these types of contracts include engineering studies, surveys, building construction, prototype development, and program management. Performance is determined principally by comparing the accumulated labor hours incurred to date with management's estimate of the total labor hours to complete the contracted work. Incurred labor hours represent work performed, which corresponds with and best depicts the transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay the Company for costs incurred plus a reasonable profit and take control of any work in process. The Company establishes billing terms at the time project deliverables and milestones are agreed. Unbilled revenue recognized in excess of the amounts invoiced to clients are classified within the accompanying consolidated balance sheets as "accounts receivable" as the Company's right to consideration is unconditional.

*Product service sales*

Product service sales other than under development contracts are recognized when completed services are delivered to the customer. The Company also sells extended warranty contracts on mobile connectivity and inertial navigation products. Sales under these contracts are recognized ratably over the contract term. Product service sales including extended warranties are not a significant portion of the Company's total sales.

*Sales-type leases*

Revenue is recognized on sales-type leases primarily from the TracPhone mini-VSAT products. In accordance with ASC 842, 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. See Note 16.

**(f) Leases**

In accordance with ASC 842, the Company recognizes all leases greater than one year in duration on the balance sheet as right-of-use assets and lease liabilities. In ASC 842, a lease is defined as follows: "[a] contract is or contains a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration."

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Many of our lease agreements contain renewal options which are recognized if it is determined that the Company is reasonably certain to renew the lease at inception or when a triggering event occurs. Some of our lease agreements contain rent escalation clauses, rent holidays, capital improvement funding or other lease concessions. The Company recognizes the minimum rental expense on a straight-line basis based on the fixed components of a lease arrangement and amortize such expense over the term of the lease beginning with the commencement date. Variable lease components that are not fixed at the beginning of the lease are recognized as incurred.

Under certain third-party service agreements, the Company controls a specific space or underlying asset used in providing the service by the third-party service provider. These arrangements meet the definition under ASC 842 and therefore are accounted for under ASC 842. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term and include options to extend or terminate the lease when reasonably certain to be exercised. The present value of lease payments is determined using the incremental borrowing rate based on the information available at the lease commencement date.

**(g) Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments, which include cash equivalents, investments, accounts receivable, accounts payable and accrued expenses, approximate their fair values due to the short maturity of these instruments. See Note 2 for more information on the fair value of the Company's marketable securities. The carrying amount of the Company's debt, and capital lease approximates fair value based on currently available quoted rates of similarly structured debt facilities. See Note 5 for more information on the fair value of the Company's debt and line of credit and Note 16 for the Company's finance lease.

**(h) Cash, Cash Equivalents, and Marketable Securities**

In accordance with the Company's investment policy, cash in excess of operational needs is invested in money market mutual funds, government agency bonds, United States treasuries, municipal bonds, corporate notes, or certificates of deposit. All highly liquid investments with a maturity date of three months or less at the date of purchase are classified as cash equivalents. The Company determines the appropriate classification of marketable securities at each balance sheet date. As of December 31, 2021 and 2020, all of the Company's marketable securities have been designated as available-for-sale and are carried at their fair value with unrealized gains and losses included in accumulated other comprehensive loss in the accompanying consolidated balance sheets.

The Company reviews investments in debt securities for other than temporary impairment whenever the fair value of an investment is less than amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, the Company considers whether it intends to sell the security, whether it expects to recover the credit loss, and if it is more likely than not that the Company will be required to sell the security prior to recovery. Evidence considered in this assessment includes the reasons for the impairment, compliance with the Company's investment policy, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee. The Company has reviewed its securities with unrealized losses as of December 31, 2021 and 2020 and has concluded that no other-than-temporary impairments exist.

**(i) Inventories**

Inventories are stated at the lower of cost and net realizable value using the first-in first-out costing method. The Company adjusts the carrying value of its inventory based on the consideration of excess and obsolete components based on future estimate demand. The Company records inventory charges to costs of product sales.

**(j) Property and Equipment**

Property and equipment are stated at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the respective assets. The principal lives used in determining the depreciation rates of various assets are: buildings and improvements, 5-40 years; leasehold improvements, shorter of original lease term or useful life; machinery, satellite hubs and equipment, 4-10 years; office and computer equipment, 3-7 years; and motor vehicles, 5 years.

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**(k) Goodwill, Intangible Assets and other Long-Lived Assets**

The Company's goodwill and intangible assets are associated with the purchase of Virtek Communication (now known as KVH Industries Norway AS) in September 2010 and Headland Media Limited (now known as the KVH Media Group) in May 2013.

In accordance with ASC Update No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment. (ASC 350), the Company performs a goodwill impairment test at least annually based on either an optional qualitative assessment or a quantitative analysis comparing the estimated fair value of a reporting unit to its carrying value as of the test date. Any impairment charges would be based on the quantitative analysis. As a result of the 2020 annual impairment test, the Company recorded goodwill impairment charges of \$8,732 and intangible asset impairment charges of \$1,758 related to its KVH Media Group reporting unit. Prior to 2020, the Company had not recorded or incurred goodwill impairment charges.

For the October 1, 2020 test, due to the uncertainty that the global pandemic presented during 2020, the Company determined that it should perform a quantitative analysis of goodwill impairment. The Company performed this full quantitative analysis in the fourth quarter of 2020 in conjunction with its annual budgeting and long-term planning cycle. The revenues and cash flows of KVH Media Group have been significantly impacted by the global reduction in travel since the start of the pandemic. With the assistance of valuation specialists, the Company utilized an income approach and market approach to estimate the fair value of its reporting units, based on assumptions the Company believed to be reasonable. As an additional corroborative test of the reasonableness of those assumptions, the Company completed a reconciliation of its market capitalization and overall enterprise value to the fair value of all of its reporting units as of October 1, 2020. The Company estimated that, as of October 1, 2020, the fair value of the mobile broadband reporting unit exceeded its carrying value by 18%; however, the carrying value of the KVH Media Group reporting unit exceeded its fair value by \$10,156, which signified that an impairment had occurred and identified a triggering event to review the other long-lived assets for impairment. In accordance with ASC 360-10, Property, Plant and Equipment – Impairment or Disposal of Long-Lived Assets (ASC 360), with regard to its long-lived assets, the Company performed an undiscounted cash flow analysis and concluded that the carrying value of the asset group was not recoverable. Accordingly, the Company then performed an analysis to estimate the fair value of the other long-lived assets and recognized an impairment charge of \$1,758, against the distribution rights intangible asset, the amount by which the carrying value of the asset group's other long-lived assets exceeded their estimated fair value, and a reduction in the associated deferred tax liability of \$334. As a result, the Company recognized an impairment charge to KVH Media Group's goodwill in the amount of \$8,732, the remaining amount by which the carrying value exceeded its fair value.

For the October 1, 2021 test, the Company performed a qualitative assessment of goodwill impairment (Step 0) and concluded that for the mobile broadband reporting unit, it was more likely than not that, for this reporting unit, the fair value exceeded the carrying value. For the KVH Media Group reporting unit, the Company determined that it was necessary to perform the Step 1 quantitative analysis due to the ongoing global pandemic and its impacts. The Company utilized an income approach to estimate the fair value of the reporting unit. The Company believes that the assumptions used to estimate the fair value of its KVH Media Group reporting unit were reasonable. The Company estimated that, as of October 1, 2021, the fair value of its KVH Media Group exceeded its carrying value by more than 20%. A negative trend of operating results or material changes to forecasted operating results could result in the requirement for additional interim goodwill impairment tests and the potential of future goodwill impairment charges, which could be material. The Company did not identify any impairment indicators that required an interim goodwill impairment test as of December 31, 2021.

Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangible assets with estimated lives and other long-lived assets is measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the Company will recognize an impairment loss for the amount by which the carrying value of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future operating cash flows or appraised values, depending on the nature of the asset. During 2021, there were no events or changes in circumstances that indicated any of the carrying amounts of the Company's intangible assets or other long-lived assets may not be recoverable. See Note 9 for further discussion of goodwill and intangible assets.

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**(l) Other Non-Current Assets**

Other non-current assets are primarily comprised of long-term lease receivables, prepaid expenses, and deposits.

**(m) 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 December 31, 2021 and 2020, the Company had accrued product warranty costs of \$1,179 and \$1,812, respectively. The following table summarizes product warranty activity during 2021 and 2020:

|                    | 2021            | 2020            |
|--------------------|-----------------|-----------------|
| Beginning balance  | \$ 1,812        | \$ 2,194        |
| Charges to expense | 457             | 1,091           |
| Costs incurred     | (1,090)         | (1,473)         |
| Ending balance     | <u>\$ 1,179</u> | <u>\$ 1,812</u> |

**(n) Shipping and Handling Costs**

Shipping and handling costs are expensed as incurred and included in cost of sales. Billings for shipping and handling are reflected within net sales in the accompanying consolidated statements of operations.

**(o) Research and Development**

Expenditures for research and development, including customer-funded research and development, are expensed as incurred. Revenue and related development costs from customer-funded research and development are as follows:

|  | Year Ended December 31, |          |
|--|-------------------------|----------|
|  | 2021                    | 2020     |
| Customer-funded service sales                            | \$ 363                  | \$ 2,043 |
| Customer-funded costs included in costs of service sales | \$ 803                  | \$ 2,935 |

**(p) Advertising Costs**

Costs related to advertising are expensed as incurred. Advertising expense was \$1,259 and \$1,285 for the years ended December 31, 2021 and 2020, respectively, and is included in sales, marketing, and support expense in the accompanying consolidated statements of operations.

**(q) Foreign Currency Translation**

The financial statements of the Company's foreign subsidiaries located in Denmark and Singapore 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 income, net" in the accompanying consolidated statements of operations. For the years ended December 31, 2021 and 2020, the Company recorded a total of net foreign currency exchange losses in its accompanying consolidated statements of operations of \$3 and \$48, respectively, which is comprised of both realized and unrealized foreign currency exchange gains and losses.

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The financial statements of the Company's foreign subsidiaries located in the United Kingdom, Brazil, Norway, Cyprus, 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 year-end. Net sales, costs and expenses are translated using average exchange rates in effect during the year. 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.

**(r) Income Taxes**

The Company is subject to income taxes in the U.S. and in numerous foreign jurisdictions. The Company accounts for income taxes following ASC Topic 740, *Accounting for Income Taxes*.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some or all of a deferred tax asset will not be realized. The Company determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more likely than not that a position will be sustained, no amount of the benefit attributable to the position is recognized. The tax benefit to be recognized of any tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes interest and penalties within the income tax expense line in the accompanying consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets. See Note 8 for further discussion of income taxes.

**(s) Net Loss per Common Share**

Basic net loss per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined in accordance with the treasury stock accounting method. For the years ended December 31, 2021 and 2020 since there was a net loss, the Company excluded all 747 and 1,566 shares, respectively, in outstanding stock options and non-vested restricted shares from its diluted loss per share calculation, as inclusion of these securities would have reduced the net loss per share.

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

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2021          | 2020          |
| Weighted average common shares outstanding—basic               | 18,217        | 17,669        |
| Dilutive common shares issuable in connection with stock plans | —             | —             |
| Weighted average common shares outstanding—diluted             | <u>18,217</u> | <u>17,669</u> |

**(t) Contingent Liabilities**

The Company estimates the amount of potential exposure it may have with respect to claims, assessments and litigation in accordance with ASC 450, *Contingencies*. As of December 31, 2021 and 2020, the Company was not party to any lawsuit or proceeding that, in management's opinion, was likely to materially harm the Company's business, results of operations, financial condition or cash flows. It is not always possible to predict the outcome of litigation, as it is subject to many uncertainties. Additionally, it is not always possible for management to make meaningful estimates of the potential loss or range of loss associated with such litigation.

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**(u) Operating Segments**

The Company operates in two segments, the mobile connectivity and inertial navigation segments. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. The Company's chief operating decision maker is its President, Chief Executive Officer and Chairman of the Board.

The Company operates in a number of major geographic areas, including internationally. Revenues are generated from international locations, primarily consisting of Canada, European countries, both inside and outside the European Union, as well as Africa, Asia/Pacific, the Middle East, and South America (see Note 12, "Segment Reporting").

**(v) Recently Issued Accounting Standards**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies. Recently issued standards typically do not require adoption until a future effective date. Prior to their effective date, the Company evaluates the pronouncements to determine the potential effects of adoption on our consolidated financial statements.

Standard Implemented

*ASC Update No. 2019-12*

In December 2019, the FASB issued ASC Update No. 2019-12, *Income Taxes (Topic 740)*. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The purpose of Update No. 2019-12 is to remove certain exceptions for recognizing deferred taxes for investments and simplify the accounting for income taxes in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. It amends the requirements relating to the accounting for "hybrid" tax regimes. Update No. 2019-12 did not have a material impact on the Company's financial position or results of operations.

Standards to be Implemented

*ASC Update No. 2016-13, ASC Update No. 2018-19, ASC Update No. 2019-04, ASC Update No. 2019-05, ASC Update No. 2019-10, ASC Update No. 2019-11 and ASC Update No. 2020-02*

In June 2016, the FASB issued ASC Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The purpose of Update No. 2016-13 is to replace the incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates.

In November 2018, the FASB issued ASC Update No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This update introduced an expected credit loss methodology for the impairment of financial assets measured at amortized cost. The amendment also clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases.

In May 2019, the FASB issued ASC Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This update introduced clarifications of the Board's intent with respect to accrued interest, the transfer between classifications or categories for loans and debt securities, recoveries, reinsurance recoverables, projects of interest rate environments for variable-rate financial instruments, costs to sell when foreclosure is probable, consideration of expected prepayments when determining the effective interest rate, vintage disclosures, and extension and renewal options.

In May 2019, the FASB issued ASC Update No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. The amendments in the update ease the transition for entities adopting ASC Update 2016-13 and increase the

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comparability of financial statement information. With the exception of held-to-maturity debt securities, the amendments allow entities to irrevocably elect to apply the fair value option to financial instruments that were previously recorded at amortized cost basis within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*.

In November 2019, the FASB issued ASC Update No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. The amendments in this update change some effective dates for certain new accounting standards including those pertaining to Topic 326 discussed above, for certain types of entities.

In November 2019, the FASB issued ASC Update No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses (Topic 326)*. The update is effective for entities that have adopted ASU 2016-13. The purpose of Update No. 2019-11 is to clarify the scope of the recovery guidance to purchased financial assets with credit deterioration.

In February 2020, the FASB issued ASC Update No. 2020-02, *Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842)*. The purpose of Update No. 2020-02 is to clarify the scope and interpretation of the standard.

As a smaller reporting entity, the effective date for Topic 326 will be the fiscal year beginning after December 15, 2022. The adoption of Update Nos. 2016-13, 2018-19, 2019-04, 2019-05, 2019-10, 2019-11 and 2020-02 is not expected to have a material impact on the Company's financial position or results of operations.

There are no other recent accounting pronouncements issued by the FASB that the Company expects would have a material impact on the Company's financial statements.

**(2) Marketable Securities**

Marketable securities as of December 31, 2021 and 2020 consisted of the following:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value    |
|---|-------------------|------------------------------|-------------------------------|------------------|
| <b>December 31, 2021</b>  |                   |                              |                               |                  |
| Money market mutual funds   | \$ 13,147         | \$ —                         | \$ —                          | \$ 13,147        |
| <b>Total marketable securities designated as available-for-sale</b> | <b>\$ 13,147</b>  | <b>\$ —</b>                  | <b>\$ —</b>                   | <b>\$ 13,147</b> |
| <b>December 31, 2020</b>  |                   |                              |                               |                  |
| Money market mutual funds   | \$ 20,142         | \$ —                         | \$ —                          | \$ 20,142        |
| United States treasuries  | 4,999             | —                            | —                             | 4,999            |
| <b>Total marketable securities designated as available-for-sale</b> | <b>\$ 25,141</b>  | <b>\$ —</b>                  | <b>\$ —</b>                   | <b>\$ 25,141</b> |

The effective maturity date of the United States treasuries is less than one year.

Interest income from marketable securities was \$6 and \$135 for the years ended December 31, 2021 and 2020, respectively.

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**(3) Inventories**

Inventories are stated at the lower of cost and net realizable value using the first-in first-out costing method. Inventories as of December 31, 2021 and 2020 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

|                 | December 31,     |                  |
|-----------------|------------------|------------------|
|                 | 2021             | 2020             |
| Raw materials   | \$ 15,772        | \$ 13,957        |
| Work in process | 4,035            | 3,996            |
| Finished goods  | 4,833            | 6,721            |
|                 | <u>\$ 24,640</u> | <u>\$ 24,674</u> |

**(4) Property and Equipment**

Property and equipment, net, as of December 31, 2021 and 2020 consist of the following:

|                               | December 31,     |                  |
|-------------------------------|------------------|------------------|
|                               | 2021             | 2020             |
| Land                          | \$ 3,828         | \$ 3,828         |
| Building and improvements     | 24,271           | 24,197           |
| Leasehold improvements        | 472              | 482              |
| Revenue-generating assets     | 63,587           | 56,336           |
| Machinery and equipment       | 16,790           | 15,536           |
| Office and computer equipment | 15,395           | 13,855           |
| Motor vehicles                | 31               | 31               |
|                               | <u>124,374</u>   | <u>114,265</u>   |
| Less accumulated depreciation | <u>(64,260)</u>  | <u>(57,992)</u>  |
|                               | <u>\$ 60,114</u> | <u>\$ 56,273</u> |

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$13,574 and \$10,659, respectively.

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

**(5) Debt and Line of Credit**

Long-term debt consists of the following:

|   | December 31, |                 |
|---|--------------|-----------------|
|   | 2021         | 2020            |
| PPP loan                                  | \$ —         | \$ 6,927        |
| Total long-term debt                      | —            | 6,927           |
| Less amounts classified as current        | —            | 4,992           |
| Long-term debt, excluding current portion | <u>\$ —</u>  | <u>\$ 1,935</u> |

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*Paycheck Protection Program Loan*

In May 2020, the Company received a \$6,927 loan (the PPP Loan) from Bank of America, N.A., (the Lender) under the Paycheck Protection Program (PPP), which was established under the Coronavirus Aid, Relief, and Economic Security Act (as modified by the Paycheck Protection Flexibility Act of 2020, the CARES Act) and is administered by the U.S. Small Business Administration (the SBA).

The term of the PPP Loan was two years from the funding date, and the interest rate was 1.00%. Interest on the loan accrued from the funding date, but was deferred. In August 2021, the Company applied for forgiveness of the full amount of the PPP Loan. On September 24, 2021, the Company received notification from the Lender that, on September 19, 2021, the SBA had determined that the PPP Loan forgiveness application was approved, and the PPP Loan, including all accrued interest thereon, was paid in full by the SBA. The forgiveness of the PPP Loan including all interest accrued of \$6,979 is recognized in Other income, net in the accompanying consolidated statements of operations for the year ended December 31, 2021.

*Line of Credit*

Effective October 30, 2018, the Company entered into an amended and restated three-year senior secured credit facility agreement (the 2018 Credit Agreement) with Bank of America, N.A., as Administrative Agent, and the lenders named from time to time as parties thereto (the 2018 Lenders), which included a reducing revolving credit facility (the 2018 Revolver) of up to \$20,000 initially and reducing to \$15,000 on December 31, 2019, to be used for general corporate purposes. The Company's obligations under the 2018 Credit Agreement are secured by substantially all of its assets and the pledge of equity interests in certain of its subsidiaries. As of December 31, 2021, no amounts were outstanding under the 2018 Revolver.

Borrowings under the 2018 Revolver are subject to the satisfaction of various conditions precedent at the time of each borrowing, including the continued accuracy of the Company's representations and warranties and the absence of any default under the 2018 Credit Agreement. As of December 31, 2021, the Company was only able to draw on \$10,900 of the \$15,000 facility due to covenant restrictions.

The 2018 Credit Agreement contained two financial covenants, a maximum Consolidated Leverage Ratio and a minimum Consolidated Fixed Charge Coverage Ratio, each as defined in the 2018 Credit Agreement. The Consolidated Leverage Ratio could not exceed 2.50:1.00 through December 31, 2020 and may not exceed 2.00:1.00 after December 31, 2020. The Consolidated Fixed Charge Coverage Ratio may not be less than 1.25:1.00.

On July 30, 2020, the Company amended the 2018 Credit Agreement to reflect the incurrence of the PPP Loan. Under the amended facility, the principal and interest on the PPP Loan were not included in the maximum Consolidated Leverage Ratio or the minimum Consolidated Fixed Charge Coverage Ratio calculations except as to any portion of the PPP Loan that is not ultimately forgiven. In September 2021, the PPP Loan was forgiven in full.

On October 29, 2021, the Company amended the 2018 Credit Agreement to maintain the \$15,000 2018 Revolver, extend the maturity date of the 2018 Revolver to October 28, 2022, eliminate the Consolidated Fixed Charge Coverage Ratio financial covenant, add a minimum trailing four-quarter Consolidated Adjusted EBITDA financial covenant of \$3,000, modify the definition of Consolidated Adjusted EBITDA, modify the interest rate margins and certain lender fees, and transition the interest rate provisions based on LIBOR to the Bloomberg Short Term Bank Yield Index. In addition, Bank of America became the sole lender under the 2018 Credit Agreement.

The 2018 Credit Agreement imposes certain other affirmative and negative covenants, including without limitation covenants with respect to the payment of taxes and other obligations, compliance with laws, performance of material contracts, creation of liens, incurrence of indebtedness, investments, dispositions, fundamental changes, restricted payments, changes in the nature of the Company's business, transactions with affiliates, corporate and accounting changes, and sale and leaseback arrangements.

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**(6) Commitments and Contingencies**

The Company has certain operating leases and other commitments for satellite capacity, various equipment, and facilities. The following reflects future minimum payments under operating leases and other commitments that have initial or remaining non-cancelable terms at December 31, 2021:

| Years ending December 31, | Commitments (a)  |
|---------------------------|------------------|
| 2022                      | \$ 29,679        |
| 2023                      | 28,190           |
| 2024                      | 5,041            |
| 2025                      | 44               |
| 2026                      | 2                |
| Total minimum payments    | <u>\$ 62,956</u> |

(a) Includes the future minimum lease payments for the Company's operating leases as seen in Note 16.

Total rent expense incurred under facility operating leases for the years ended December 31, 2021 and 2020 amounted to \$868 and \$875, respectively. Total expense incurred under satellite capacity and equipment operating leases and other commitments for the years ended December 31, 2021 and 2020 amounted to \$39,216 and \$34,990, respectively, which also includes payments for usage charges in excess of the minimum contractual requirements.

In the normal course of business, the Company enters into unconditional purchase order obligations with its suppliers for inventory and other operational purchases. Outstanding and unconditional purchase order obligations were \$26,371 as of December 31, 2021, which the Company expects to fulfill in 2022.

The Company did not have any off-balance sheet commitments, guarantees, or standby repurchase obligations as of December 31, 2021.

**(7) Stockholders' Equity**

The Company recognizes stock-based compensation in accordance with the provisions of ASC Topic 718, *Compensation-Stock Compensation*. Stock-based compensation expense, excluding compensation charges related to our employee stock purchase plan, or the ESPP, was \$4,053 and \$3,414 for the years ended December 31, 2021 and 2020, respectively.

The Company is authorized to grant stock options, restricted stock awards and other stock-based awards under its Amended and Restated 2016 Equity and Incentive Plan (the 2016 Plan) with respect to up to 4,800 shares of common stock, an increase of 1,800 shares reserved for issuance under the previous 2016 Plan as approved by our shareholders on June 10, 2020. Options have generally been granted with an exercise price equal to the fair market value of the common stock on the date of grant and have generally provided for vesting in equal annual amounts over four years beginning on the first anniversary of the date of the grant. No options are exercisable for periods of more than five years after date of grant. Under the 2016 Plan, each share issued under awards other than options and stock appreciation rights will reduce the number of shares reserved for issuance by two shares. Shares issued under options or stock appreciation rights will reduce the shares reserved for issuance on a share-for-share basis. The 2016 Plan and earlier equity compensation plans, pursuant to which an aggregate of 14,215 shares of the Company's common stock were reserved for issuance, were all approved by the Company's shareholders. As of December 31, 2021, 458 shares were available for future grants. The Compensation Committee of the Board of Directors administers the equity compensation plans, approves the individuals to whom awards will be granted and determines the number of shares and other terms of each award. Outstanding options under the Company's equity compensation plans at December 31, 2021 expire from March 2022 through March 2026. None of the Company's outstanding options includes performance-based or market-based vesting conditions as of December 31, 2021.

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**(a) Employee Stock Options**

The Company has estimated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. The expected volatility assumption is based on the historical daily price data of the Company's common stock over a period equivalent to the weighted average expected life of the Company's options. The expected term of options granted is derived using assumed exercise rates based on historical exercise patterns and represents the period of time the options granted are expected to be outstanding. The risk-free interest rate is based on the actual U.S. Treasury zero-coupon rates for bonds matching the expected term of the option as of the option grant date. The dividend yield of zero is based on the fact that the Company has not historically declared or paid cash dividends, and does not expect to declare or pay dividends in the foreseeable future.

The per share weighted-average fair values of stock options granted during 2021 and 2020 were \$4.70 and \$2.88, respectively. The weighted-average assumptions used to value options as of their grant date were as follows:

|                          | Year Ended<br>December 31, |         |
|--------------------------|----------------------------|---------|
|                          | 2021                       | 2020    |
| Risk-free interest rate  | 0.92 %                     | 0.21 %  |
| Expected volatility      | 44.98 %                    | 44.03 % |
| Expected life (in years) | 4.28                       | 4.29    |
| Dividend yield           | 0 %                        | 0 %     |

The changes in outstanding stock options for the year ended December 31, 2021 and 2020 are as follows:

|   | Number of Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life<br>(in Years) | Aggregate Intrinsic<br>Value |
|---|-------------------|------------------------------------|---|------------------------------|
| Outstanding at December 31, 2020                        | 2,034             | \$ 9.25                            |   |                              |
| Granted   | 497               | \$ 12.68                           |   |                              |
| Exercised   | (274)             | \$ 9.86                            |   |                              |
| Expired, canceled or forfeited                          | (130)             | \$ 9.96                            |   |                              |
| Outstanding at December 31, 2021                        | 2,127             | \$ 9.93                            | 2.68  | \$ 931                       |
| Exercisable at December 31, 2021                        | 858               | \$ 9.41                            | 1.65  | \$ 453                       |
| Options vested or expected to vest at December 31, 2021 | 2,127             | \$ 9.93                            | 2.68  | \$ 931                       |

|   | Number of Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life<br>(in Years) | Aggregate Intrinsic<br>Value |
|---|-------------------|------------------------------------|---|------------------------------|
| Outstanding at December 31, 2019                        | 1,624             | \$ 9.86                            |   |                              |
| Granted   | 654               | \$ 8.12                            |   |                              |
| Exercised   | (110)             | \$ 8.02                            |   |                              |
| Expired, canceled or forfeited                          | (134)             | \$ 12.14                           |   |                              |
| Outstanding at December 31, 2020                        | 2,034             | \$ 9.25                            | 3.21  | \$ 4,288                     |
| Exercisable at December 31, 2020                        | 611               | \$ 9.83                            | 2.19  | \$ 939                       |
| Options vested or expected to vest at December 31, 2020 | 2,034             | \$ 9.25                            | 3.21  | \$ 4,288                     |

The total aggregate intrinsic value of options exercised was \$914 and \$269 in 2021 and 2020, respectively.

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As of December 31, 2021, there was \$3,599 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 2.42 years. In 2021 and 2020, the Company recorded compensation charges of \$1,740 and \$1,401, respectively, related to stock options. Compensation costs for options subject only to service conditions that vest ratably are recognized on a straight-line basis over the requisite service period for the entire award. During 2021 and 2020, cash received under stock option plans for exercises was \$2,709 and \$880, respectively.

**(b) Restricted Stock**

The Company granted 217 and 317 restricted stock awards to employees under the terms of the 2016 Plan or the Amended and Restated 2006 Stock Incentive Plan (2006 Plan) for the years ended December 31, 2021 and 2020, respectively. The restricted stock awards have generally provided for vesting annually over four years from the date of grant subject to the recipient remaining an employee through the applicable vesting dates. Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market closing price of the Company's common stock. Such value is recognized as expense over the vesting period of the award, net of forfeitures. The weighted-average grant-date fair value of restricted stock granted during 2021 and 2020 was \$12.23 and \$8.19 per share, respectively.

As of December 31, 2021, there was \$3,838 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.21 years. Compensation costs for awards subject only to service conditions that vest ratably are recognized on a straight-line basis over the requisite service period for the entire award. Compensation cost for awards initially subject to certain performance conditions are recognized on a ratable basis over the requisite service period for the entire award. In 2021 and 2020, the Company recorded compensation charges of \$2,313 and \$2,013, respectively, related to restricted stock awards.

Restricted stock activity under the 2006 Plan and the 2016 Plan for 2021 is as follows:

|  | Number of<br>Shares | Weighted-<br>average<br>grant date<br>fair value |
|--|---------------------|--|
| Outstanding at December 31, 2020, unvested | 556                 | \$ 8.90  |
| Granted                                    | 217                 | 12.23  |
| Vested                                     | (247)               | 9.18   |
| Forfeited                                  | (37)                | 9.46   |
| Outstanding at December 31, 2021, unvested | <u>489</u>          | <u>\$ 10.19</u>                                  |

**(c) Employee Stock Purchase Plan**

Under the Company's Amended and Restated 1996 Employee Stock Purchase Plan (ESPP), an aggregate of 1,650 shares of common stock have been reserved for issuance, of which 821 shares remain available as of December 31, 2021.

The ESPP covers all of the Company's employees. Under the terms of the ESPP, eligible employees can elect to have up to six percent of their pre-tax compensation withheld to purchase shares of the Company's common stock on a semi-annual basis at 85% of the market price on the first or last day of each purchase period, whichever is lower. During 2021 and 2020, shares issued under this plan were 26 and 44 shares, respectively. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of these discounted purchases. The fair value of the 15% discount is recognized as compensation expense over the purchase period. The Company applies a graded vesting approach because the ESPP provides for multiple purchase periods and is, in substance, a series of linked awards. In 2021 and 2020, the Company recorded compensation charges of \$56 and \$48, respectively, related to the ESPP. During 2021 and 2020, cash received under the ESPP was \$230 and \$336, respectively.

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**(d) Stock-Based Compensation Expense**

The following presents stock-based compensation expense, including expense for the ESPP, in the Company's consolidated statements of operations for the years ended December 31, 2021 and 2020.

|                              | 2021            | 2020            |
|------------------------------|-----------------|-----------------|
| Cost of product sales        | \$ 271          | \$ 165          |
| Cost of service sales        | 10              | —               |
| Research and development     | 644             | 593             |
| Sales, marketing and support | 898             | 682             |
| General and administrative   | 2,286           | 2,022           |
|                              | <u>\$ 4,109</u> | <u>\$ 3,462</u> |

**(e) Accumulated Other Comprehensive Loss (AOCI)**

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

|                                   | Foreign<br>Currency<br>Translation | Total<br>Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------------------------|------------------------------------|--|
| <b>Balance, December 31, 2019</b> | <b>\$ (2,767)</b>                  | <b>\$ (2,767)</b>                                      |
| Other comprehensive loss          | (465)                              | (465)  |
| Net other comprehensive loss      | (465)                              | (465)  |
| <b>Balance, December 31, 2020</b> | <b>(3,232)</b>                     | <b>(3,232)</b>   |
| Other comprehensive loss          | (177)                              | (177)  |
| Net other comprehensive loss      | (177)                              | (177)  |
| <b>Balance, December 31, 2021</b> | <b>\$ (3,409)</b>                  | <b>\$ (3,409)</b>                                      |

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**(8) Income Taxes**

Income tax (benefit) expense for the years ended December 31, 2021 and 2020 attributable to loss from operations is presented below.

|                                     | <u>Current</u> | <u>Deferred</u> | <u>Total</u>    |
|-------------------------------------|----------------|-----------------|-----------------|
| <u>Year ended December 31, 2021</u> |                |                 |                 |
| Federal                             | \$ 27          | \$ —            | \$ 27           |
| State                               | —              | —               | —               |
| Foreign                             | 44             | (179)           | (135)           |
|                                     | <u>\$ 71</u>   | <u>\$ (179)</u> | <u>\$ (108)</u> |
| <u>Year ended December 31, 2020</u> |                |                 |                 |
| Federal                             | \$ 240         | \$ —            | \$ 240          |
| State                               | —              | —               | —               |
| Foreign                             | 321            | (387)           | (66)            |
|                                     | <u>\$ 561</u>  | <u>\$ (387)</u> | <u>\$ 174</u>   |

Actual income tax (benefit) expense differs from the “expected” income tax (benefit) expense computed by applying the United States Federal statutory income tax rate of 21% for both 2021 and 2020 to loss before tax (benefit) expense, as follows:

|   | <u>Year Ended December 31,</u> |               |
|---|--------------------------------|---------------|
|   | <u>2021</u>                    | <u>2020</u>   |
| Income tax benefit at Federal statutory income tax rate | \$ (2,073)                     | \$ (4,571)    |
| Increase (decrease) in income taxes resulting from:     |                                |               |
| State income tax benefit, net of federal benefit        | (342)                          | (600)         |
| State research and development, investment credits      | (137)                          | (213)         |
| Non-deductible meals & entertainment                    | 1                              | 22            |
| Non-deductible stock compensation expense               | (194)                          | 19            |
| Non-deductible compensation under 162(m)                | 35                             | —             |
| Foreign tax rate differential                           | 58                             | 235           |
| Federal research and development credits                | (607)                          | (707)         |
| Uncertain tax positions                                 | 32                             | 39            |
| Provision to tax return adjustments                     | 33                             | 144           |
| Change in valuation allowance                           | 4,648                          | 3,980         |
| PPP loan forgiveness                                    | (1,455)                        | —             |
| Impairment of goodwill and intangibles                  | —                              | 1,834         |
| Prior period adjustments                                | (117)                          | —             |
| Other   | 10                             | (8)           |
| Income tax (benefit) expense                            | <u>\$ (108)</u>                | <u>\$ 174</u> |

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Loss before income tax (benefit) expense determined by tax jurisdiction, are as follows:

|               | Year Ended December 31, |                    |
|---------------|-------------------------|--------------------|
|               | 2021                    | 2020               |
| United States | \$ (10,040)             | \$ (11,862)        |
| Foreign       | 169                     | (9,904)            |
| <b>Total</b>  | <b>\$ (9,871)</b>       | <b>\$ (21,766)</b> |

Deferred tax assets and liabilities for the periods presented consisted of the following:

|   | December 31, |          |
|---|--------------|----------|
|   | 2021         | 2020     |
| Deferred tax assets:  |              |          |
| Accounts receivable, due to allowance for doubtful accounts | \$ 373       | \$ 221   |
| Inventories   | 1,211        | 1,209    |
| Operating loss carry-forwards                               | 5,784        | 2,744    |
| Stock-based compensation expense                            | 1,106        | 874      |
| Property and equipment, due to difference in depreciation   | 1,978        | 841      |
| Research and development tax credit carry-forwards          | 6,247        | 5,640    |
| Foreign tax credit carry-forwards                           | 2,345        | 2,345    |
| State tax credit carry-forwards                             | 3,975        | 3,838    |
| Capitalized research and development                        | 2,690        | 3,154    |
| Warranty reserve  | 277          | 429      |
| Accrued expenses  | 1,174        | 1,216    |
| Lease liability   | 700          | 1,574    |
| Gross deferred tax assets                                   | 27,860       | 24,085   |
| Less valuation allowance                                    | (27,080)     | (22,432) |
| Total deferred tax assets                                   | 780          | 1,653    |
| Deferred tax liabilities:                                   |              |          |
| Purchased intangible assets                                 | (199)        | (384)    |
| Property and equipment, due to differences in depreciation  | (52)         | (50)     |
| Right of use asset  | (688)        | (1,564)  |
| Total deferred tax liabilities                              | (939)        | (1,998)  |
| Net deferred tax liability                                  | \$ (159)     | \$ (345) |
| Deferred income tax asset                                   | \$ 56        | \$ 73    |
| Deferred income tax liability                               | \$ (215)     | \$ (418) |

As of December 31, 2021 the Company has federal and state tax loss carryforwards of approximately \$22,103 and \$16,878, respectively. The federal loss carryforward has no expiration date. The state losses expire through the year 2041. As of December 31, 2021, the Company had federal research and development tax credit carry-forwards in the amount of \$6,238 and other general business credits of \$9 that expire in years 2028 through 2041. As of December 31, 2021, the Company had foreign tax credit carry-forwards in the amount of \$2,345 that expire in years 2026 through 2027. As of December 31, 2021, the Company had state research and development tax credit carry-forwards in the amount of \$4,918 that expire in years 2022 through 2028. The Company also had other state tax credit carry-forwards of \$114 available to reduce future state tax expense that expire in years 2022 through 2028.

The Company's ability to utilize these net operating loss carry-forwards and tax credit carry-forwards may be limited in the future if the Company experiences an ownership change pursuant to Internal Revenue Code Section 382. An ownership change occurs when the ownership percentages of 5% or greater stockholders change by more than 50% over a three-year period.

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In assessing the realizability of its net deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2021, the Company concluded that a net increase of \$4,648 of the valuation allowance was appropriate. The change was the result of an increase in domestic tax credits, net operating loss balances, and property and equipment differences due to depreciation. As part of the Company's analysis, the Company evaluated, among other factors, its recent history of generating tax losses and its near-term forecasts of future taxable income or losses.

As of December 31, 2021, unremitted foreign earnings, which were not significant, have been retained by the Company's foreign subsidiaries for indefinite reinvestment. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company could be subject to state tax and withholding taxes payable to various foreign countries.

The Company establishes reserves for uncertain tax positions based on management's assessment of exposure associated with tax deductions, permanent tax differences, and tax credits. The tax reserves are analyzed periodically and adjustments are made as events occur that warrant adjustment to the reserve. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The aggregate changes in the total gross amount of unrecognized tax benefits are as follows:

|  | <b>Year Ended December 31,</b> |                 |
|--|--------------------------------|-----------------|
|  | <b>2021</b>                    | <b>2020</b>     |
| Unrecognized tax benefits as of January 1                              | \$ 1,771                       | \$ 1,897        |
| Gross decrease in unrecognized tax benefits - prior year tax positions | (104)                          | (105)           |
| Lapse of statute of limitations  | (14)                           | (21)            |
| Unrecognized tax benefits as of December 31                            | <u>\$ 1,653</u>                | <u>\$ 1,771</u> |

All unrecognized tax benefits as of December 31, 2021 and 2020, if recognized, would result in a reduction of the Company's effective tax rate.

The Company recorded interest and penalties of \$46 and \$61 in its consolidated statement of operations for the years ended December 31, 2021 and 2020, respectively. Total accrued interest and penalties related to tax positions taken on our tax returns and included in non-current income taxes payable was approximately \$255 and \$208 as of December 31, 2021 and 2020, respectively.

The timing of any resolution of income tax examinations is highly uncertain, as are the amounts and timing of any settlement payment. These events could cause fluctuations in the balance sheet classification of current and non-current assets and liabilities. The Company estimates that it is reasonably possible that the balance of unrecognized tax benefits as of December 31, 2021 may decrease approximately \$19 in the next twelve months as a result of a lapse of statutes of limitation 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 2018, 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.

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**(9) Goodwill and Intangible Assets**

Intangible assets arose from an acquisition made prior to 2013 and the acquisition of KVH Media Group (acquired as Headland Media Limited) in May 2013. Intangibles arising from the acquisition made prior to 2013 were amortized on a straight-line basis over an estimated useful life of 7 years. Intangibles arising from the acquisition of KVH Media Group are being amortized on a straight-line basis over the estimated useful life of: (i) 10 years for acquired subscriber relationships and (ii) 15 years for distribution rights. Due to the impairment of distribution rights during the Company's 2020 annual impairment test, the estimated useful life of distribution rights was reduced from 15 years to 1 year. The intangibles arising from the KVH Media Group acquisition were recorded in pounds sterling and fluctuations in exchange rates cause these amounts to increase or decrease from time to time.

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*, which the Company adopted on October 1, 2016. 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. As of December 31, 2021, the carrying value of the intangible assets acquired in the asset acquisition was \$408. As the acquisition did not represent a business combination, the contingent consideration arrangement is recognized only when the contingency is resolved and the consideration is paid or becomes payable. The amounts payable under the contingent consideration arrangement, if any, will be included in the measurement of the cost of the acquired subscriber relationships. An additional \$62 and \$75 of consideration was earned under the contingent consideration arrangement during the years ended December 31, 2021 and 2020, respectively.

Acquired intangible assets are subject to amortization. The following table summarizes acquired intangible assets at December 31, 2021 and 2020, respectively:

|                                 | <u>Gross Carrying<br/>Amount</u> | <u>Accumulated<br/>Amortization</u> | <u>Net Carrying<br/>Value</u> |
|---------------------------------|----------------------------------|-------------------------------------|-------------------------------|
| <b><u>December 31, 2021</u></b> |                                  |                                     |                               |
| Subscriber relationships        | \$ 8,033                         | \$ 6,746                            | \$ 1,287                      |
| Distribution rights             | 315                              | 315                                 | —                             |
| Internally developed software   | 446                              | 446                                 | —                             |
| Proprietary content             | 153                              | 153                                 | —                             |
| Intellectual property           | 2,284                            | 2,284                               | —                             |
|                                 | <u>\$ 11,231</u>                 | <u>\$ 9,944</u>                     | <u>\$ 1,287</u>               |
| <b><u>December 31, 2020</u></b> |                                  |                                     |                               |
| Subscriber relationships        | \$ 7,977                         | \$ 5,958                            | \$ 2,019                      |
| Distribution rights             | 311                              | 76                                  | 235                           |
| Internally developed software   | 446                              | 446                                 | —                             |
| Proprietary content             | 153                              | 153                                 | —                             |
| Intellectual property           | 2,284                            | 2,284                               | —                             |
|                                 | <u>\$ 11,171</u>                 | <u>\$ 8,917</u>                     | <u>\$ 2,254</u>               |

Amortization expense related to intangible assets was \$1,027 and \$1,004 for years ended December 31, 2021 and 2020, respectively, and was categorized as general and administrative expense.

As of December 31, 2021, the total weighted average remaining useful lives of the definite-lived intangible assets was 1.5 years and the weighted average remaining useful lives by the definite-lived intangible asset category are as follows:

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| Intangible Asset         | Weighted Average Remaining Useful Life in Years |
|--------------------------|---|
| Subscriber relationships | 1.5   |

Estimated future amortization expense for intangible assets recorded by the Company at December 31, 2021 is as follows:

| Years ending December 31,  | Amortization Expense |
|----------------------------|----------------------|
| 2022                       | \$ 782               |
| 2023                       | 315                  |
| 2024                       | 60                   |
| 2025                       | 60                   |
| 2026                       | 60                   |
| Thereafter                 | 10                   |
| Total amortization expense | \$ 1,287             |

The changes in the carrying amount of intangible assets during the year ended December 31, 2021 is as follows:

|  | 2021     |
|--|----------|
| Balance at December 31, 2020                     | \$ 2,254 |
| Amortization expense                             | (1,027)  |
| Intangibles assets acquired in asset acquisition | 62       |
| Foreign currency translation adjustment          | (2)      |
| Balance at December 31, 2021                     | \$ 1,287 |

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. All of the Company's goodwill as of December 31, 2021 relates to its mobile connectivity reportable segment. None of the Company's goodwill is deductible for tax purposes. The changes in the carrying amount of goodwill during the year ended December 31, 2021 is as follows:

|   | Goodwill |
|---|----------|
| Balance at December 31, 2020            | \$ 6,592 |
| Foreign currency translation adjustment | (22)     |
| Balance at December 31, 2021            | \$ 6,570 |

**(10) 401(k) Plan**

The Company has a 401(k) Plan (the Plan) for all eligible employees. Participants may defer a portion of their pre-tax or post-tax earnings subject to limits determined by the Internal Revenue Service. Participants age 50 or older may be eligible to make additional contributions. The Company matches contributions by the Plan participants up to 6%. The Company's contributions vest over a five-year period from the date of hire. During a five and half month period in 2020, as a result of the uncertainty caused by the COVID-19 pandemic, the Company paused matching contributions. The Company matching contributions were \$900 and \$561 for the years ended December 31, 2021 and 2020, respectively. In addition, the Company may make additional contributions to the Plan at the discretion of the Compensation Committee of the Board of Directors. There were no discretionary contributions in 2021 and 2020.

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**(11) Revenue from Contracts with Customers (ASC 606)**

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 years ended December 31, 2021 and 2020:

|   | Year Ended<br>December 31, |                   |
|---|----------------------------|-------------------|
|   | 2021                       | 2020              |
| Mobile connectivity product, transferred at point in time | \$ 27,490                  | \$ 25,140         |
| Mobile connectivity product, transferred over time        | 2,522                      | 2,723             |
| Mobile connectivity service                               | 103,899                    | 91,590            |
| Inertial navigation product                               | 36,858                     | 36,756            |
| Inertial navigation service                               | 998                        | 2,524             |
| <b>Total net sales</b>                                    | <b>\$ 171,767</b>          | <b>\$ 158,733</b> |

Revenue recognized during the years ended December 31, 2021 and 2020 from amounts included in contract liabilities at the beginning of the fiscal year was approximately \$2,281 and \$2,586, respectively.

For mobile connectivity product sales, the delivery of the Company's performance obligations are generally transferred to the customer, and associated revenue is recognized, at a point in time, with the exception of certain mini-VSAT contracts which are transferred to customers over time. For mobile connectivity service sales, the delivery of the Company's performance obligations are transferred to the customer, and associated revenue is recognized, over time. For inertial navigation product sales, the delivery of the Company's performance obligations are generally transferred to the customer, and associated revenue is recognized, at a point in time. For inertial navigation service sales, the Company's performance obligations are generally transferred to customers, and associated revenue is recognized, over time.

*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 potential bad debts and evaluates, on a monthly basis, the adequacy of those reserves based upon historical experience and its expectations for future collectability concerns. The Company performs ongoing credit evaluations of the financial condition of its customers and generally does not require collateral.

No single customer accounted for 10% or more of consolidated net sales for the years ended December 31, 2021 or 2020 or accounts receivables as of December 31, 2021 or 2020.

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.

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**(12) Segment Reporting**

The Company's reportable segments are mobile connectivity and inertial navigation. The financial results of each segment are based on revenues from external customers, costs of revenue and operating expenses that are directly attributable to the segment and an allocation of costs from shared functions. These shared functions include, but are not limited to, facilities, human resources, information technology, and engineering. Allocations are made based on management's judgment of the most relevant factors, such as head count, number of customer sites, or other operational data that contribute to the shared costs. Certain corporate-level costs have not been allocated as they are not directly attributable to either segment. These costs primarily consist of broad corporate functions, including executive, legal, finance, and costs associated with corporate actions. Segment-level asset information has not been provided as such information is not reviewed by the chief operating decision-maker for purposes of assessing segment performance and allocating resources. There are no significant inter-segment sales or transactions.

The Company's performance is impacted by the levels of activity in the marine and land mobile markets and defense sectors, among others. Performance in any particular period could be impacted by the timing of sales to certain large customers.

The mobile connectivity segment primarily manufactures and distributes a comprehensive family of mobile satellite antenna products and services that provide access to television, the Internet and voice services while on the move. Product sales within the mobile connectivity segment accounted for approximately 17% and 18% of our consolidated net sales for 2021 and 2020, respectively. Sales of mini-VSAT Broadband airtime service accounted for approximately 54% and 51% of our consolidated net sales for 2021 and 2020, respectively.

The inertial navigation segment manufactures and distributes a portfolio of digital compass and fiber optic gyro (FOG)-based systems that address the rigorous requirements of military and commercial customers and provide reliable, easy-to-use and continuously available navigation and pointing data. The principal product categories in this segment include the FOG-based inertial measurement units (IMUs) for precision guidance, FOGs for tactical navigation as well as pointing and stabilization systems, and digital compasses that provide accurate heading information for demanding applications, security, automation and access control equipment and systems. Sales of FOG-based guidance and navigation systems within the inertial navigation segment accounted for approximately 16% of consolidated net sales for both 2021 and 2020.

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

The Company operates in a number of major geographic areas, including internationally. Revenues from international locations primarily include Canada, European Union countries, and other European countries, as well as countries in Africa, Asia/Pacific, the Middle East, and India. Revenues are based upon customer location and internationally represented 60% and 64% of consolidated net sales for 2021 and 2020, respectively. Sales to Singapore customers represented 11% of the Company's consolidated net sales for 2021. No other individual foreign country represented 10% or more of the Company's consolidated net sales for 2021. No individual foreign country represented 10% or more of the Company's consolidated net sales for 2020.

As of December 31, 2021 and 2020, the long-lived tangible assets related to the Company's international subsidiaries were less than 10% of the Company's long-lived tangible assets and were deemed not material.

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Net sales and operating income (loss) for the Company's reporting segments and the Company's loss before income tax (benefit) expense for the years ended December 31, 2021 and 2020 were as follows:

|  | <b>For the year ended December 31,</b> |                    |
|--|--|--------------------|
|  | <b>2021</b>                            | <b>2020</b>        |
| <b>Net sales:</b>                        |  |                    |
| Mobile connectivity                      | \$ 133,911                             | \$ 119,453         |
| Inertial navigation                      | 37,856                                 | 39,280             |
| Consolidated net sales                   | <u>\$ 171,767</u>                      | <u>\$ 158,733</u>  |
| <b>Operating income (loss):</b>          |  |                    |
| Mobile connectivity <sup>(1)</sup>       | \$ 2,749                               | \$ (10,071)        |
| Inertial navigation                      | 1,649                                  | 4,799              |
| Subtotal                                 | 4,398                                  | (5,272)            |
| Unallocated, net                         | (22,344)                               | (17,665)           |
| Loss from operations                     | (17,946)                               | (22,937)           |
| Net interest and other income            | 8,075                                  | 1,171              |
| Loss before income tax (benefit) expense | <u>\$ (9,871)</u>                      | <u>\$ (21,766)</u> |

(1) Includes an impairment charge of \$10,490 for the KVH Media Group reporting unit within the mobile connectivity segment for the year ended December 31, 2020.

Depreciation expense and amortization expense for the Company's segments are presented in the table that follows for the periods presented:

|   | <b>For the year ended December 31,</b> |                  |
|---|--|------------------|
|   | <b>2021</b>                            | <b>2020</b>      |
| <b>Depreciation expense:</b>            |  |                  |
| Mobile connectivity                     | \$ 11,322                              | \$ 8,726         |
| Inertial navigation                     | 1,569                                  | 1,325            |
| Unallocated                             | 683                                    | 608              |
| Total consolidated depreciation expense | <u>\$ 13,574</u>                       | <u>\$ 10,659</u> |
| <b>Amortization expense:</b>            |  |                  |
| Mobile connectivity                     | \$ 1,027                               | \$ 1,004         |
| Inertial navigation                     | —                                      | —                |
| Unallocated                             | —                                      | —                |
| Total consolidated amortization expense | <u>\$ 1,027</u>                        | <u>\$ 1,004</u>  |

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**(13) Share Buyback Program**

On October 4, 2019, the Company's Board of Directors authorized a share repurchase program pursuant to which the Company was authorized to purchase up to 1,000 shares of the Company's common stock. The program expired on October 4, 2020. Under the repurchase program, the Company, at management's discretion, was authorized to repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement.

In January 2020, the Company repurchased 36 shares of common stock in open market transactions at a cost of approximately \$390. The total amount the Company repurchased under the repurchase program since the inception of the October 4, 2019 repurchase program was 151 shares of common stock for an approximate cost of \$1,690. There were no repurchase programs outstanding during 2021.

**(14) Fair Value Measurements**

ASC 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 and United States treasuries.
- 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 the valuation techniques identified in the table below. The valuation techniques are:

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

The following tables present financial assets and liabilities at December 31, 2021 and December 31, 2020 for which the Company measures fair value on a recurring basis, by level, within the fair value hierarchy:

| <b>December 31, 2021</b>  | <b>Total</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Valuation<br/>Technique</b> |
|---------------------------|--------------|----------------|----------------|----------------|--------------------------------|
| <b>Assets</b>             |              |                |                |                |                                |
| Money market mutual funds | \$ 13,147    | \$ 13,147      | \$ —           | \$ —           | (a)                            |
| <b>December 31, 2020</b>  | <b>Total</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Valuation<br/>Technique</b> |
| <b>Assets</b>             |              |                |                |                |                                |
| Money market mutual funds | \$ 20,142    | \$ 20,142      | \$ —           | \$ —           | (a)                            |
| United States treasuries  | \$ 4,999     | \$ 4,999       | \$ —           | \$ —           | (a)                            |

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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 goodwill, 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 an impairment exists. During 2020, the Company recorded an impairment charge of \$10,490 to goodwill and intangible assets. There was no additional impairment of the Company's non-financial assets noted as of December 31, 2021. See Note 1(k) and Note 9 for additional details. The Company does not have any liabilities that are recorded at fair value on a non-recurring basis.

**(15) 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.

**(16) Leases**

*Lessee*

The Company has operating leases for office facilities, equipment, and satellite service capacity and related equipment. Lease expense was \$3,963 and \$3,413 for the year ended December 31, 2021 and 2020, respectively. Short-term operating lease costs was \$237 and \$244 for the years ended December 31, 2021 and 2020, respectively. Sublease income was \$134 for both the years ended December 31, 2021 and 2020. Maturities of lease liabilities as of December 31, 2021 under operating leases having an initial or remaining non-cancelable term of one year or more are as follows:

| <b><u>Years ending December 31,</u></b>   |                        |
|---|------------------------|
| 2022  | \$ 2,033               |
| 2023  | 819                    |
| 2024  | 428                    |
| 2025  | 38                     |
| Total undiscounted lease payments   | <u>\$ 3,318</u>        |
| Less amount representing interest   | <u>\$ (182)</u>        |
| Present value of operating lease liabilities  | <u>\$ 3,136</u>        |
| Less current installments of obligation under current-operating lease liabilities       | <u>\$ 1,912</u>        |
| Obligations under long-term operating lease liabilities, excluding current installments | <u><u>\$ 1,224</u></u> |
| Weighted-average remaining lease term - operating leases (years)                        | 1.97                   |
| Weighted-average discount rate - operating leases                                       | 5.50 %                 |

During the first quarter of 2018, the Company entered into a five-year financing lease for three satellite hubs for its HTS network. During the first quarter of 2021, the terms of this lease were adjusted and the Company discontinued use of two satellite hubs and was released from the related payment obligation in exchange for additional satellite service capacity. As of December 31, 2021, the gross costs and accumulated depreciation associated with this lease are included in revenue generating

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assets and amounted to \$1,268 and \$710, respectively. The obligations under financing leases are stated at the present value of minimum lease payments.

The property and equipment held under this financing lease are amortized on a straight-line basis over the seven-year estimated useful life of the asset, since the lease meets the bargain purchase option criteria. Amortization of assets held under financing leases is included within depreciation expense. Depreciation expense for the remaining capital assets was \$181 for both the years ended December 31, 2021 and 2020.

The future undiscounted lease payments under this financing lease as of December 31, 2021 are:

|   |    |        |
|---|----|--------|
| 2022  | \$ | 264    |
| 2023  |    | 22     |
| Total undiscounted lease payments   | \$ | 286    |
| Less amount representing interest   | \$ | (3)    |
| Present value of financing lease liabilities                                  | \$ | 283    |
| Less current installments of obligation under accrued other                   | \$ | 261    |
| Obligations under other long-term liabilities, excluding current installments | \$ | 22     |
| Weighted-average remaining lease term - finance leases (years)                |    | 1.17   |
| Weighted-average discount rate - finance leases                               |    | 1.53 % |

*Lessor*

The Company enters into leases with certain customers primarily for the TracPhone mini-VSAT systems. These leases are classified as sales-type leases as title of 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.

The current portion of the net investment in these leases was \$3,881 as of December 31, 2021 and the non-current portion of the net investment in these leases was \$6,777 as of December 31, 2021. 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 \$882 and \$859 during the year ended December 31, 2021 and 2020, respectively.

The future undiscounted cash flows from these leases as of December 31, 2021 are:

|  |    |        |
|--|----|--------|
| 2022   | \$ | 4,589  |
| 2023   |    | 3,479  |
| 2024   |    | 2,540  |
| 2025   |    | 1,160  |
| 2026   |    | 340    |
| Total undiscounted cash flows  | \$ | 12,108 |
| Present value of lease payments                                      | \$ | 10,658 |
| Difference between undiscounted cash flows and discounted cash flows | \$ | 1,450  |

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In 2021, the Company entered into three-year leases for its TracPhone mini-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 December 31, 2021, the gross costs and accumulated depreciation associated with these operating leases are included in revenue generating assets and amounted to \$1,444 and \$154, respectively. They are depreciated on a straight-line basis over a five-year estimated useful life. Depreciation expense for these assets was \$154 for the year ended December 31, 2021.

For the year ended December 31, 2021, lease revenue of \$243 was recognized in service sales in the statements of operations.

As of December 31, 2021, minimum future lease payments to be received on the operating leases are as follows:

|       |  |          |
|-------|--|----------|
| 2022  |  | 445      |
| 2023  |  | 444      |
| 2024  |  | 202      |
| Total |  | \$ 1,091 |

**(17) Subsequent Events**

On March 6, 2022, the Company's President and Chief Executive Officer, Martin Kits van Heyningen retired from his executive and Board roles after more than 40 years of service. The Board of Directors has engaged an executive search firm to identify a new Chief Executive Officer. Brent C. Bruun, the Company's Chief Operating Officer, has been appointed as its interim President and Chief Executive Officer.

In March 2022, the Company also restructured its operations to reduce costs and better reflect a more focused strategy, which resulted in an approximately 10% reduction in its workforce.

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