SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

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 No.)

50 Enterprise Center, Middletown, RI 02842
(Address of principal executive offices)

(401) - 847 - 3327
(Registrant's telephone number, including area code)

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 X No __

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

Date	Class	Outstanding shares
July 9, 2002	Common Stock, par value $0.01 per share	11,030,154

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Part I. Financial Information

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Assets:		
Current assets:		
Cash and cash equivalents	$ 6,518,863	11,240,893
Accounts receivable, net	7,684,622	6,026,689
Costs and estimated earnings In excess of billings on uncompleted contracts	460,470	482,486
Inventories (note 2)	5,132,578	4,124,203
Prepaid expenses and other deposits	669,019	406,866
Deferred income taxes (note 4)	551,699	637,799
Total current assets	21,017,251	22,918,936
Property and equipment, net	7,515,677	7,431,287
Other assets, less accumulated amortization	507,537	573,849
Deferred income taxes (note 4)	2,238,430	2,238,430
Total assets	$ 31,278,895	33,162,502
Liabilities and stockholders' equity:		
Current liabilities:		
Current portion long-term debt (note 3)	$ 86,974	86,974
Accounts payable	2,262,624	2,084,507
Accrued expenses	1,334,947	1,143,790
Customer deposits	361,868	903,853
Total current liabilities	4,046,413	4,219,124
Long-term debt (note 3)	2,656,006	2,697,147
Total liabilities	6,702,419	6,916,271
Stockholders' equity:		
Common stock	110,301	109,612
Additional paid-in capital	34,766,065	34,478,002
Accumulated deficit	(10,299,8900)	(8,341,383)
Total stockholders' equity	24,576,476	26,246,231
Total liabilities and stockholders' equity	$ 31,278,895	33,162,502

See accompanying Notes to Consolidated Financial Statements.

Item 1. Financial Statements (continued).

KVH INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30, 2002	Three months ended June 30, 2001	Six months ended June 30, 2002	Six months ended June 30, 2001
Net sales	$ 12,641,244	7,829,217	22,282,757	15,961,888
Cost of sales	7,321,309	5,007,273	12,678,716	10,016,446
Gross profit	5,319,935	2,821,944	9,604,041	5,945,442
Operating expenses:				
Research & development	2,432,512	2,261,296	4,766,211	4,005,501
Sales & marketing	2,775,751	1,978,904	5,094,015	4,227,236
Administration	813,592	639,794	1,532,932	1,278,045
Loss from operations	(701,920)	(2,058,050)	(1,789,117)	(3,565,340)
Other income (expense):				
Other expense	(28,632)	(14,421)	(30,656)	(36,756)
Interest income (expense), net	(29,985)	78,575	(52,634)	70,834
Loss before income taxes	(760,537)	(1,993,896)	(1,872,407)	(3,531,262)
Income tax expense (note 4)	51,600	--	86,100	--
Net loss	$ (812,137)	(1,993,896)	(1,958,507)	(3,531,262)
Per share information: (note 5)				
Loss per share				
Basic	$ (0.07)	(0.19)	(0.18)	(0.37)
Diluted	$ (0.07)	(0.19)	(0.18)	(0.37)
Number of shares used in per share calculation:				
Basic	11,005,426	10,318,065	10,989,609	9,477,323
Diluted	11,005,426	10,318,065	10,989,609	9,477,323

See accompanying Notes to Consolidated Financial Statements.

Item 1. Financial Statements (continued).

KVH INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2002	2001
Cash flow from operations:		
Net loss	$ (1,958,507)	(3,531,262)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	757,926	609,430
Provision for deferred taxes (note 4)	86,100	--
(Increase) decrease in accounts and contract receivables, net	(1,657,933)	1,780,982
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts	22,016	(134,993)
Increase in inventories (note 2)	(1,008,375)	(1,485)
Increase in prepaid expenses and other deposits	(262,153)	(345,632)
Increase in accounts payable	178,117	203,357
Increase in accrued expenses	191,157	793,749
(Decrease) increase in customer deposits	(541,985)	74,263
Net cash used in operating activities	(4,193,637)	(551,591)
Cash flow from investing activities:		
Capital expenditures	(776,004)	(898,629)
Cash flow from financing activities:		
Repayments of bank line of credit (note 3)	--	(598,865)
Repayments of long-term debt (note 3)	(41,141)	(35,475)
Proceeds from sales of common stock and exercise of stock options	288,752	12,994,587
Net cash provided by financing activities	247,611	12,360,247
Net (decrease) increase in cash and cash equivalents	(4,722,030)	10,910,027
Cash and cash equivalents at beginning of period	11,240,893	5,411,460
Cash and cash equivalents at end of period	$ 6,518,863	16,321,487
Supplement disclosure of cash flow information:		
Cash paid during the period for interest	$ 55,526	119,807

See accompanying Notes to Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2002 and 2001
(Unaudited)

(1) The accompanying consolidated financial statements of KVH Industries, Inc. and subsidiary (the "Company") for the three- and six-month periods ended June 30, 2002 and 2001 have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements presented have not been audited by independent public accountants, but they include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for such periods. These consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with our consolidated financial statements and notes included in the Company's Annual Report on Form 10-K filed on March 20, 2002, with the Securities and Exchange Commission. Copies of our Form 10-K are available upon request. Our results for the three- and six-months ended June 30, 2002 are not necessarily indicative of operating results for the remainder of the year.

(2) Inventories at June 30, 2002 and December 31, 2001 include the costs of material, labor, and factory overhead. Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	June 30, 2002	December 31, 2001
Raw materials	$ 3,380,077	2,675,890
Work in process	54,632	4,749
Finished goods	1,697,869	1,443,564
	$ 5,132,578	4,124,203

Defense project inventories are included in the balance sheet caption "Costs and estimated earnings in excess of billings on uncompleted contracts." Defense project inventories amounted to $36,558 and $18,879 at June 30, 2002 and December 31, 2001, respectively. Monthly invoicing of defense contracts, using vouchers or progress billings, allows us to recover project costs as we incur them.

(3) On January 11, 1999, we entered into a mortgage loan in the amount of $3,000,000 with a life insurance company. The note term is 10 years, with a principal amortization of 20 years at a fixed interest rate of 7%. Land, building, and improvements secure the mortgage loan. The monthly mortgage obligation is $23,259, including interest and principal. Due to the difference in the term of the note and the amortization of the principal, a balloon payment of $2,014,716 is due on February 1, 2009. As of June 30, 2002, $2,742,980 remained outstanding.

On March 27, 2000, we entered into a $5,000,000 asset-based, three-year, revolving loan facility with interest at the prime bank lending rate plus 1%. Unused portions of the revolving credit facility accrue interest at an annual rate of 50 basis points. Funds are advanced based upon an asset availability formula that includes our eligible accounts receivable and inventory. The availability formula sets aside a fixed amount of qualified assets that may not be borrowed against. We may terminate the loan prior to the full term, however we would become liable for certain termination fees. No borrowings were outstanding as of June 30, 2002.

(4) In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In accordance with the provisions of the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The amount of the deferred tax asset

considered realizable, however, could be reduced in the near term if there are changes in the estimates of future taxable income during the carry-forward period or feasibility of certain tax planning strategies.

An increase in the valuation allowance for deferred tax assets in the amount of $815,603 was recorded to reserve against the tax benefit relating to the quarterly and year-to-date domestic loss for the period ended June 30, 2002. The

Company assesses the recoverability of its deferred tax asset quarterly, by considering whether it is more likely than not that some portion or the entire deferred tax asset will be realized. Based on the history of operating losses in its ongoing business and its expectations in the future, the Company has determined that a portion of the deferred tax asset, including the tax benefit related to the domestic losses incurred to date through June 30, 2002, will likely not be recoverable and a valuation allowance has been accordingly established.

(5) Net loss per common share. Common share equivalents to purchase 347,987 and 345,350 shares of common stock for the three and six month periods ended June 30, 2002, have been excluded from the basic and fully diluted calculations of loss per share, as there inclusion would be anti-dilutive. The following is a reconciliation of the weighted-average number of shares outstanding used in the computation of the basic loss per common share:

		Data in thousands, except per share data			
		Three months ended June 30,		Six months ended June 30,	
		2002	2001	2002	2001
Calculation of loss per share - basic					
Net loss	$	(812)	(1,994)	(1,959)	(3,531)
Shares:					
Common shares outstanding		11,005	10,318	10,990	9,477
Net loss per common share - basic	$	(0.07)	(0.19)	(0.18)	(0.37)
Calculation of loss per share - diluted					
Net loss	$	(812)	(1,994)	(1,959)	(3,531)
Shares:					
Common shares outstanding		11,005	10,318	10,990	9,477
Additional shares assuming conversion of stock options and warrants		--	--	--	--
Average common and equivalent shares outstanding		11,005	10,318	10,990	9,477
Net loss per common share - diluted	$	(0.07)	(0.19)	(0.18)	(0.37)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain information contained in this Quarterly Report on Form 10-Q is forward-looking in nature. All statements included in this Quarterly Report on Form 10-Q or made by management of KVH Industries, Inc., other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding KVH's future financial results, operating results, business strategies, projected costs, products, competitive positions and plans and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section entitled "Trends, Risks and Uncertainties." These and many other factors could affect KVH's future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by KVH or on its behalf. Other risks and uncertainties are disclosed in KVH's prior SEC filings, including its Annual Report on Form 10-K for the year ended December 31, 2001, dated March 20, 2002. Copies of our SEC filings are available from the SEC, from KVH upon request, or on our web site, www.kvh.com.

Company Overview

KVH Industries designs and manufactures products that enable mobile communication, defense navigation, and direction sensing through the use of its proprietary mobile satellite antenna and fiber optic technologies. KVH is an established company with existing product lines that drive consistent revenue growth, positioning the Company as the leader in the marine and land mobile satellite communications and defense land vehicle navigation markets. In late 2000 we began research into low-profile satellite antennas and in-fiber modulators to extend our reach in mobile satellite communications and enter the fiber optic infrastructure markets. To fund these efforts, the Company carried out a series of private placements that raised $17.5 million, net of transaction costs.

Principal Technologies and Products
KVH employs two key proprietary technologies - fiber optics and mobile satellite antennas - in its products. These technologies allow KVH to address opportunities across a wide spectrum of markets, including defense-related navigation and stabilization, optical telecommunications, and in-motion satellite communications (e.g., vessels, recreation vehicles (RVs), and other vehicles).

Fiber Optics
Since acquiring the fiber optic assets of Andrew Corporation in 1997, KVH has invested in and completed the development of its proprietary EoCore(R) line of fiber optic gyros (FOGs), and successfully integrated them into the Company's existing products. KVH produces both optical fiber and optical subassemblies for integration with its products or for original equipment manufacturer's (OEM) applications. Our integrated manufacturing process ensures the highest level of quality, resulting in production yields that are significantly higher than the industry average. Our fiber optic technology is being applied to an array of applications in different markets and has enhanced the precision and durability of our products.

Defense Applications
The military's evolving combat strategy places a premium on the precision vehicle navigation critical for rapid deployments, high-speed maneuvers, and digital battlefield coordination. KVH Industries' TACNAV(TM) integrated tactical navigation systems offer every military vehicle and force commander - whether in a command, support, or combat vehicle - 100% availability of position and other tactical data, even if the Global Positioning System (GPS) is disrupted or jammed. In addition to interfacing with the onboard GPS, TACNAV consolidates onboard tactical data and transmits the data via digital Battlefield Management Systems (BMS) to the force commander and the other units in the field, enhancing operational efficiency and coordination. KVH is a leading supplier of integrated navigation and targeting systems worldwide, with systems aboard more than 7,000 vehicles. KVH offers multiple variants of the TACNAV system using both KVH FOGs and digital compasses, providing complete operational support for virtually the entire spectrum of military vehicles through a low-cost, integrated solution. KVH's fiber optic rotation rate sensors also meet the emerging need among military forces for drone and unmanned aerial vehicle (UAV) navigation, turret stabilization and guided munitions. Our sensors offer improved precision and reliability over existing systems at a lower cost, providing KVH a significant competitive advantage.

Optical Telecommunication Applications
The same optical fiber technology that is integral to KVH FOGs and sensors is also appropriate for use in high-speed optical telecommunication components. Development is underway on our photonic fiber initiative, which combines our patented D-shaped optical fiber with a new electro-optic polymer. Our intent is to turn passive fiber into an active optical component for next-generation high-speed optical networks. The first product that we anticipate bringing to market using our ActiveFiber(TM) Technology is a high-speed external modulator capable of speeds in excess of 40 gigabits per second (Gbps) that will meet the needs of existing 10 Gbps and emerging 40 Gbps networks. We expect that KVH ActiveFiber Technology, if successfully developed, may serve as a platform for additional optical components that may be suitable for use in optical networking as well as in our next-generation mobile satellite antennas.

Mobile Satellite Antennas
KVH's TracVision(R) and Tracphone(R) products connect people on the move to satellite television, telephone, and high-speed Internet services. These award-winning systems have established KVH as a market leader in both the marine and land mobile markets. The core technology in KVH's family of satellite television and communications systems is the Company's proprietary three-axis, fully stabilized antenna, which maintains contact with specific geo-stationary satellites when a vessel or vehicle is in motion. The antennas use a gyro and inclinometer to precisely measure the pitch, roll, and yaw of an antenna platform in relation to the earth. Based on that data, on-board microprocessors and the Company's proprietary stabilization and control software compute the antenna movement necessary for the antenna's motors to point the antenna properly and maintain satellite contact. KVH antennas also carry out rapid initial acquisition, continuous tracking, and reacquisition of the satellite signal without operator intervention.

Marine and RV Applications
Since the introduction of the first TracVision satellite TV antenna in 1994, the Company has continued to refine its TracVision products, resulting in smaller, lower cost antennas with higher levels of performance. KVH's proprietary integrated Digital Video Broadcast (DVB) technology allows its antennas to receive signals from high-powered digital television services like DIRECTV(R), as well as virtually any DVB satellite service worldwide, including the DISH Network(TM) and ExpressVu in North America; DIRECTV Latin America in Central and South America; Astra, Hotbird, Thor, Sirius, and Hispasat in Europe; and Arabsat in Africa and the Middle East. Platforms using our TracVision satellite television antennas include pleasure and commercial marine craft as well as moving or stationary RVs, motor coaches, vans, and long-haul trucks.

KVH has an established distribution and service infrastructure that comprises more than 3,000 dealers in the United States alone. The National Marine Electronics Association (NMEA) has named the Company's TracVision family the "Best Satellite Television Product" in 1998, 1999, 2000, and 2001. KVH is now the dominant player in the existing mobile satellite market, with an estimated 70 percent market share in the marine and RV mobile satellite TV marketplaces.

In October 2001, KVH announced that it had signed an exclusive agreement with Bell ExpressVu to distribute the DirecPC(R) satellite Internet service to mobile customers in the United States. KVH then introduced its TracNet(TM) mobile high-speed Internet system for the maritime and land mobile markets, making KVH the only company to offer mobile, two-way access to high-speed Internet services to vessels and vehicles in and around North America. TracNet shipments began in the second quarter of 2002. TracNet is fully compatible with all of KVH's DVB satellite TV antenna systems and allows mobile users to surf the Internet at speeds up to 400 kilobits per second (Kbps).

Automotive Applications
The tremendous acceptance and expansion of multimedia systems aboard vehicles has created a need for a system that will provide live programming and high-speed Internet for these video systems. The KVH mobile broadband research initiative is directed toward the development of a low-profile satellite TV antenna that will provide in-motion access to high-speed, two-way Internet and satellite television services for the video and computer systems aboard automobiles and other vehicles. The first phase of the mobile broadband effort is to build a low-profile satellite TV antenna suitable for use aboard SUVs and minivans. Subject to the timely completion of this development effort, we anticipate that the low-profile antenna will be introduced to the market late in the second half of 2002.

Marine Satellite Communications Applications
KVH is also a leading provider of marine satellite communications systems. Our fully stabilized Tracphone systems equip pleasure and commercial marine vessels with two-way voice, fax, and e-mail with global coverage provided by the satellite constellation operated by Inmarsat (the International Maritime Satellite Organization). In June 2002, KVH announced that it would begin selling Inmarsat airtime services to complement its Tracphone line of satellite communications hardware, creating a new, recurring revenue opportunity for the company. With more than 20 years experience, Inmarsat is the largest and most successful mobile communications company, serving marine, land mobile, and aeronautical customers worldwide. Inmarsat now supports links for phone, fax, and data communications at up to 64 Kbps to more than 240,000 ships, vehicles, aircraft, and portable terminals.

Results of Operations

Net loss per share - Net losses for the three and six-month periods ended June 30 were $812,137 or $0.07 per share and $1,958,507 or $0.18 per share in 2002 and $1,993,896 or $0.19 per share and $3,531,262 or $0.37 per share in 2001, respectively. Operating losses reflect ongoing project research expenditures for our photonic fiber and mobile broadband research initiatives. We anticipate that project spending will decline in the second half of this year and as a result we forecast a return to profitability, in the second half of this year.

Net sales - Net sales for this year's second quarter were $12,641,244, an increase of 61% over last year's second quarter's sales of $7,829,217. Quarterly sales gains were due to roughly a five-fold increase in defense shipments and a 74% growth in domestic communications sales over the prior year second quarter. Defense revenue increases are due to foreign military sales, while domestic communications sales growth reflects the success of our large account distribution strategy, and the launch of both the Thrane & Thrane product line and the TracNet mobile Internet product. Year-to-date revenues rose to $22,282,757, a 40% increase from last year's result. Year-to-date sales gains include a doubling of defense shipments and a 53% increase in domestic communication sales. Positive factors that were responsible for year-to-date revenue growth are largely the same as those responsible for second quarter results. Current sales trends remain strong and we continue to forecast annual revenue growth in the 30% - 40% range. Factors that could place our forecast at risk include slower than anticipated defense and fiber optic sales.

Gross profit - Gross profit is comprised of revenues less the cost of materials, direct labor and manufacturing overheads. Second quarter gross profit dollars grew by 89%, while gross profit expressed as a percentage of sales increased to 42% of sales from 36% of sales in the prior year's second quarter. Factors that made up the six point margin improvement included a favorable mix of higher margin defense shipments, that added 1% to last year's profit percentage, and a leveling out of manufacturing overhead spending that added 5% to the gross profit percentage total. Manufacturing overhead spending increased in absolute terms by $198,686 from the prior year's second quarter, but declined as a percentage of revenues by 5%, as manufacturing overhead cost reduction programs took effect and fixed overhead costs per unit declined in response to greater shipment volumes. The same factors that were responsible for the second quarter's favorable result accounted for a positive year-to-date gross profit growth to 43% of sales from last year's 37%. Gross margins are forecast to slowly improve over the remainder of the year based upon continuing manufacturing overhead cost reductions, and sales mix weighted towards higher margin defense products. Factors that could place our forecast at risk include slower than anticipated defense and fiber optic sales.

Operating expenses

Second quarter 2002 research and development expense increased $171,216 to $2,432,512, or 8% from last year's second quarter R&D expense of $2,261,296, while year-to-date spending increased $760,710 to $4,766,211 or 19% above the prior year. R&D increases are due to continuing project investments in our photonic fiber and low-profile mobile broadband antenna development projects. We estimate that R&D expenditures will begin to decrease as we reduce our reliance on outside consultants and gradually reduce project spending as we near the completion of the low-profile antenna project and we begin to scale back our investment in photonic fiber. Based upon our current R&D spending forecast, we anticipate that R&D spending will decline for the remainder of the year as increases in customer-funded research combine with reduced project spending to lower overall R&D expenditures. Factors that could place our forecast at risk include slowness in customer-funding, or unforeseen research project expenses.

Second quarter 2002 sales and marketing expense grew by $796,847 to $2,775,751, a 40% increase from last year's second quarter spending of $1,978,904. Roughly 66% of the second quarter sales spending increase was made up of outside sales representative commissions, which increased by $526,529 from the prior year in response to a 61% quarterly sales increase, while in-house commissions, customer support, the establishment of the Internet services administrative support group and dealer support costs made up the remainder of the marketing and sales spending increase. Year-to-date sales and marketing expenses rose to $5,094,015, an increase of $866,779 or 21% above the prior year's first half. Year-to-date spending increases reflect the spending categories that resulted in the second quarter. We anticipate that sales and marketing expense will decline modestly, from second quarter levels in the third quarter due to one-time second quarter outside representative commissions, and then increase in the fourth quarter proportionately as sales volumes increase.

General and administrative second quarter expenses increased $173,798 to $813,592, or a 27% increase from last year's second quarter spending of $639,794. Non-recurring recruiting and professional fees made up the increase. Year-to-date spending rose $254,886 to $1,532,932, or 20% over the prior year. Annual spending growth reflected the same factors that influenced the second quarter. We believe that administration expense will remain relatively flat for the remainder of the year.

Income tax expense - Our quarterly and year-to-date domestic income tax benefit was fully reserved and, accordingly, does not offset our domestic operating loss. As a result, our quarterly domestic net loss increased by $338,025 or $0.03 per share, and our year-to-date net loss increased $815,620 or $0.07 per share, which equals the amount of valuation allowance allocated to our quarterly and year-to date domestic losses. We have allocated income tax expense of $86,100 to our non-domestic operating income on a year-to-date basis. Utilizing the guidelines in the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," we have assessed, based upon historical losses and our expected lack of profitability in the near term, that it is more likely than not that a portion of our deferred tax asset will not be realized and a valuation allowance has accordingly been established. In addition, the amount of the deferred tax asset appearing on the balance sheet that is considered realizable could be reduced in the near term if changes occur in the feasibility of certain tax planning strategies.

Liquidity and Capital Resources

Working capital - Our cash balance was $6.5 million at June 30, 2002. Cash decreased by $2.6 million in the second quarter of 2002 due to accounts receivable growth of $0.7 million in response to a 61% sales increase, decreases in accounts payable and customer deposits totaling $1.2 million and capital expenditures rose $0.3 million. Cash flow from operations is forecast to improve significantly for the remainder of the year, in response to improved operating results, however positive cash flow from operations will be offset by second-half capital expenditures, resulting in an estimated decrease in the June 30, 2002 cash balance of roughly $0.05 million. We anticipate that existing cash balances will be sufficient to meet our anticipated operating and capital going forward.

Other Matters

Critical Accounting Policies

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 of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company's significant accounting policies are included in Note 1 of the Notes to the Consolidated Financial Statements of our Annual Report on Form 10-K dated March 20, 2002. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating the Company's reported financial results include allowance for doubtful accounts, inventory valuation, impairment of long-lived assets and recoverability of deferred tax assets.

The Company's estimate for its allowance for doubtful accounts related to trade receivables is based on specific and historical criteria that are combined to determine the total amount reserved. The Company evaluates specific accounts where we have information that the customer may have an inability to meet its financial obligations. The Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated on a monthly basis and adjusted as additional information is received that impacts the amount reserved. An additional reserve is established for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience and are analyzed on a quarterly basis. If circumstances change, the Company's estimates of the recoverability of amounts due the company could be reduced by a material amount.

Inventory is valued at the lower of cost or market. The Company continually ensures that slow-moving and obsolete inventory is written down to its net realizable value by reviewing current quantities on hand, actual and projected sales volumes and anticipated selling prices on products. Generally, the Company does not experience issues with obsolete inventory due to the nature of its products being interchangeable with various product offerings. If the Company were not able to achieve its expectations of the net realizable value of the inventory at its current value, the Company would have to adjust its reserves accordingly.

Long-lived assets are reviewed for indications of impairment when events and circumstances indicate that the assets might not be recoverable. Recoverability of long-lived assets is measured by a comparison of the assets carrying value to the estimated future undiscounted cash flows expected to be generated by the asset. If such assets were considered to be impaired, the impairment would be measured by the amount by which the carrying value of the asset exceeds its fair value based on estimated discounted cash flows. The preparation of future cash flows requires significant judgments and estimates with respect to future revenues related to the respective asset and the future cash outlays related to those revenues. Actual revenues and related cash flows or changes in anticipated revenues and related cash flows could result in a change in this assessment and result in an impairment charge. The preparation of discounted cash flows also requires the selection of an appropriate discount rate. The use of different assumptions would increase or decrease estimated discounted cash flows and could increase or decrease the related impairment charge.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. On a quarterly basis the Company assesses the recoverability of the deferred tax assets by considering whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the history of operating earnings in its ongoing business and its expectations in the future, the Company has determined that a portion of the deferred tax assets were not recoverable and a valuation allowance was established. For the remaining deferred tax assets the recoverability of these assets was deemed to be recoverable based on certain tax planning strategies. The amount of the deferred tax asset considered realizable could be reduced in the future if there are changes in the Company's feasibility of certain tax planning strategies. Additionally, if the Company generates future earnings the realizability of the deferred tax assets reserved by the valuation allowance would be utilized.

Contractual Obligations and Other Commercial Commitments

Our contractual commitments consist of a mortgage note payable, facility and equipment leases. The principal repayment of the mortgage note is based upon a 20-year amortization schedule, but the term is 10 years requiring a balloon payment of $2,014,716, due on February 1, 2009. There are no loan to value covenants in the loan that would require early pay-down of the mortgage if the market value of the property should decline. We are also obligated under a multi-year facility lease that terminates in 2005. Our present intention is to renew the facility lease prior to its expiration in 2005. Our operating leases represent vehicle and equipment operating leases. The schedule below reflects our liabilities under these agreements.

	Total	2002 - 2004	2005 - 2006	After 2006
Mortgage loan	$2,742,980	239,099	222,218	2,281,663
Facility lease	$486,400	440,990	45,410	--
Operating leases	$40,723	37,650	3,073	--
Total contractual cash obligations	$3,270,103	717,739	270,701	2,281,663

We have not entered into any off-balance sheet commercial commitments such as standby letters of credit, guarantees, and standby repurchase obligations or other commercial commitments.

Other Matters

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144. The Company adopted the provision of SFAS No. 142 as of January 1, 2002, and it did not have a material impact on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company adopted the provision of SFAS No. 144 on January 1, 2002 and it did not have a material impact on the consolidated financial statements.

Inflation. The Company believes that inflation has not had a material effect on its results of operations.

Trends, Risks and Uncertainties

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements that are subject to a number of risks and uncertainties. There are important factors that could cause actual results to differ materially from those anticipated by our previous statements.

We May Fail to Complete Our Mobile Broadband Development Initiative Successfully Our mobile broadband project is in the development stage. The KVH mobile broadband initiative is directed toward the development of a low-profile satellite TV antenna that will provide in-motion access to high-speed, two-way Internet and satellite television services for the video and computer systems aboard automobiles and other vehicles.

The project involves significant technical advances and there can be no assurance that we will achieve the form factor, performance, and cost parameters necessary for successful commercialization of these products. A delay or failure to create our ActiveFiber Technology could prevent the development of an affordable flat panel, phased-array antenna. If we are delayed in our development of our mobile broadband technology and/or are not first to market with this technology, we may be unable to achieve significant market share in the automotive mobile satellite communication market.

The Success of the TracNet Mobile High-speed Internet Service Depends on the Performance and Quality of Other Service Providers The new TracNet service is designed to provide mobile high-speed Internet access to vehicles and vessels throughout North America and as far as 100 miles off the coast. TracNet's successful operation depends on the use of KVH's antenna and other components with services and equipment of other suppliers. Specifically, TracNet will rely upon the service offered by the satellite Internet provider (Bell ExpressVu of Canada), as well as the equipment and services of cellular and satellite return link communications suppliers. Globalstar Satellite Communications Services, which KVH intends to use as the satellite return link supplier for TracNet, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code on February 15, 2002, and currently is operating its business as a debtor-in-possession. Should Globalstar or one of the other vendors integral to TracNet's operation be unable to fulfill its obligations, KVH will seek an alternate supplier and carry out any necessary hardware and software retrofits or upgrades that may be required to ensure the continued operation of the TracNet system. In such an event, KVH may not be able to identify and enter into appropriate agreements with replacement suppliers.

Pricing of Our Mobile Satellite Communications Products is Critical to Product Acceptance The success of our mobile broadband project depends upon our ability to develop a technologically advanced antenna at an acceptable price for the automotive marketplace. To date, phased-array antennas have been developed at prices far in excess of what is practical in the automotive marketplace. There can be no assurance that we can engineer a phased-array solution within the pricing and technical parameters necessary to be successful in the automotive marketplace.

We May Fail to Complete Our Photonic Fiber Development Initiative Successfully Our photonic fiber project is currently in the development stage. We are developing our ActiveFiber Technology consisting of photonic fiber products that we believe will replace electro-optic components and create an active-fiber networking solution that would greatly enhance the speed of transmissions over fiber optic networks. We may never complete the technological development necessary to realize the full commercial potential of the project. Our current approach utilizes a new electro-optic polymer and our D-fiber technology. The photonic fiber initiative involves significant technical advances, and there can be no assurance that we will achieve the form factor, performance, and cost parameters necessary for successful commercialization of this technology.

If we are delayed in our development of our photonic fiber technology and/or are not first to market with this technology, we may be unable to achieve significant market share in the fiber optic networking market. The marker acceptance of our proposed photonic fiber modulator could also be delayed as a result of ongoing uncertainty in the telecommunications industry. Failure to complete development of our photonic fiber technology will also prevent us from developing a phase shifter based on that technology, which may impair our ability to effectively provide mobile broadband communications services to automobiles through the use of a flat panel, phased-array antenna.

Research and Development Expenditures Could Result in Continuing Operating Losses For the past four years we have made significant investments in research and development that have contributed to operating losses in each of those years. In May 2001, we completed a series of private placements that raised $17.5 million, net of transaction costs, to accelerate our research into two key product areas, photonic fiber and mobile broadband. If 2002 projected R&D project expenditures are extended beyond our current projections for the remainder of this year or the introduction of these products is delayed, it will slow our anticipated return to profitability. Should we continue to accelerate spending beyond current budgeted levels for 2002, we could continue to experience operating losses and negative cash flows.

Future Sales Growth Depends on the Continued Expansion of Satellite Communications Revenues To date, the Company's growth has been sustained by a consistent expansion of our satellite communications sales. Our future satellite communications sales growth will be based to a considerable extent upon the successful introduction of new mobile satellite communications products for use in marine and land applications. Our success depends heavily on rapid completion of new products, particularly for worldwide Internet and data applications. However, poor consumer confidence and/or economic conditions could depress product demand. Our success also depends on external variables such as consumers' access to satellite communication services, which may be hindered because satellite launches and new technology are expensive and subject to failures, depressing demand for our products.

Defense-related Sales Could be Adversely Affected by Political and International Events Recent world events and a shift in military planning to favor rapid deployment and lighter vehicles put a premium on precision navigation, a feature offered by KVH's integrated tactical navigation systems. Based on our shippable backlog in 2002 and current military procurement schedules, we anticipate a doubling of our defense-related revenues, which is required for a return to profitability in 2002. However, this growth could be adversely affected by: delays in the current military procurement schedule; an unexpected shift or reallocation of anticipated funding for military programs; delays in the testing and acceptance of our technological solutions by the military; and sales cycles that are long and difficult to predict.

Our Operating Results are Variable
Our quarterly operating results have varied in the past and may vary significantly in the future depending upon all the foregoing risk factors and how successful we are in improving our ratios of revenues to expenses.

Our Share Price has Displayed Volatility
The Company's stock has experienced substantial price volatility as a result of variations between its actual and anticipated financial results and as a result of announcements by the Company and its competitors. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that have been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may materially adversely affect the market price of the Company's common stock in the future.

Our Consumer Product Sales are Dependent on the Financial Strength and Performance of Our Distribution Network Many of our consumer-oriented products are marketed through a third-party worldwide network of value-added resellers, distributors, and independent sales representatives. Many of the Company's resellers operate on narrow product margins, and may distribute products from competing manufacturers. The Company's business and financial results could be adversely affected if the financial condition of these resellers weakened, if resellers within consumer channels were to cease distribution of the Company's products, or if uncertainty regarding demand for the Company's products caused resellers to reduce their ordering and marketing of the Company's products.

If We Fail to Commercialize New Product Lines, Our Business Will Suffer
We intend to continue to develop new product lines and to improve existing product lines to meet our customers' diverse and changing needs. However, our development of new products and improvements to existing products may not be successful, due to our failure to complete the development of a new product or product improvement; or our failure to sell our new product or improved product because, among other things, the product is too expensive, is defective in design, manufacture or performance, is inferior to similar products on the market, or has been superceded by a superior product or technology. Furthermore, new products require increased sales and marketing, customer support, and administrative functions to support anticipated increased levels of operations. We may not be successful in creating this infrastructure, and we may not realize a sufficient increase in gross profit to offset the expenses resulting from this expanded infrastructure.

Our Success Depends to a Significant Degree Upon the Protection of Our Proprietary Technology The unauthorized reproduction or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it. This could have a material adverse effect on our business, operating results and financial condition. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive and could involve a high degree of risk. Moreover, the laws of other countries in which we market our products may afford little or no effective protection of our intellectual property.

Claims by Other Companies that We Infringe Their Copyrights or Patents Could Adversely Affect Our Financial Condition If any of our products violate third-party proprietary rights, we may be required to reengineer our products or seek to obtain licenses from third parties to continue to offer our products. Any efforts to reengineer our products or obtain licenses on commercially reasonable terms may not be successful, and, in any case, would substantially increase our costs and have a material adverse effect on our business, operating results and financial condition. We do not conduct comprehensive 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.

Although we are generally indemnified against claims that third-party technology that we license infringes the proprietary rights of others, this indemnification is not always available for all types of intellectual property rights (for example, patents may be excluded) and in some cases the scope of such indemnification is limited. Even if we receive broad indemnification, third-party indemnitors are not always well capitalized and may not be able to indemnify us in the event of infringement, resulting in substantial exposure to us. There can be no assurance that infringement or invalidity claims arising from the incorporation of third-party technology in our products, and claims for indemnification from our customers resulting from these claims, will not be asserted or prosecuted against us. These claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources in addition to potential product redevelopment costs and delays, all of which could materially adversely affect our business, operating results and financial condition.

In addition, any claim of infringement could cause us to incur substantial costs defending against the claim, even if the claim is invalid, and could distract our management from their business. A party making a claim also could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our products. Any of these events could have a material adverse effect on our business, operating results and financial condition.

Our Future Success Depends to a Significant Degree on the Skills, Experience, and Efforts of the Company's CEO, Martin Kits Van Heyningen, and our Senior Executives The loss of the services of Mr. Kits van Heyningen could have a material adverse effect on our business, operating results and financial condition. We also depend on the ability of our executive officers and other members of senior management to work effectively as a team. We do not have employment agreements with any of our executive officers.

General Economic Conditions and Current Economic and Political Uncertainty Could Adversely Affect the Company The Company's operating performance depends significantly on general economic conditions. Demand for some of the Company's consumer-oriented products displayed slower-than-anticipated growth as a result of worsening global economic conditions. Continued uncertainty about future economic conditions has also made it increasingly difficult to forecast future operating results. Should global and regional economic conditions fail to improve or continue to deteriorate, demand for the Company's products could be adversely affected, as could the financial health of its suppliers, distributors, and resellers. The terrorist attacks that took place on September 11, 2001, have created many economic and political uncertainties and have had a strong negative impact on the global economy. The long-term effects of the September 11, 2001, attacks on the Company's future operating results and financial condition are unknown.

Part II. Other Information

Item 1. Legal Proceedings.

On June 20, 2002 Agility Robotics, Inc. ("Agility") informed us that it had filed a complaint against us in the United States District Court for the District of Minnesota alleging that certain of our products infringe two United States patents owned by Agility. The complaint has not been served on us. Agility has contacted us regarding the possibility of licensing the technology that is subject to the complaint. We have responded by seeking additional information from Agility. We intend to defend ourselves vigorously if Agility serves the complaint and proceeds with the litigation.

In the ordinary course of business, we are party to legal proceedings and claims. In addition, from time to time, the Company has had contractual disagreements with certain customers concerning the Company's products and services, which will not have a material affect on operations or capital resources.

Item 4. Submission of Matters to a Vote of Shareholders

At our 2002 Annual Meeting of Stockholders (the "Annual Meeting") held on May 29, 2002, the Company's stockholders acted upon a proposal to:

To elect three directors to serve a three-year term, until their successors have been elected.

Martin Kits van Heyningen, Robert W.B. Kits van Heyningen and Werner Trattner were elected to serve as directors for a three year term and until their successors are elected. Arent H. Kits van Heyningen, Mark S. Ain, Stanley K. Honey and Charles R. Trimble continued to serve as a director following the annual meeting.

The results of the voting on the matters presented to stockholders at the Annual Meeting are set forth below:

	Votes In Favor	Abstentions
Martin A. Kits van Heyningen	8,007,595	45,230
Robert W.B. Kits van Heyningen	7,956,000	96,825
Werner Trattner	8,010,707	42,118

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Number	Description	
3.1	Restated Certificate of Incorporation of the Company	(1)
3.5	Amended and Restated By-laws of the Company	
10.01	1986 Executive Incentive Stock Option Plan	(1)
10.02	Amended and Restated 1995 Incentive Stock Option Plan of the Company	(1)
10.03	1996 Employee Stock Purchase Plan	(1)
10.05	Credit Agreement dated September 8, 1993, between the Company and Fleet National Bank	(1)
10.06	$500,000 Revolving Credit Note dated September 8, 1993, between the Company and Fleet National Bank	(1)
10.07	Security Agreement dated September 8, 1993, between the Company and Fleet National Bank	(1)
10.08	Modification to Security Agreement dated May 30, 1994, between the Company and Fleet National Bank	(1)
10.09	Second Modification to Credit Agreement and Revolving Credit Note dated May 30, 1994, between the Company and Fleet National Bank	(1)
10.10	Second Modification to Security Agreement dated March 17, 1995, between the Company and Fleet National Bank	(1)
10.11	Third Modification to Credit Agreement and Revolving Credit Note dated March 17, 1995, between the Company and Fleet National Bank	(1)
10.12	Third Modification to Security Agreement dated December 12, 1995, between the Company and Fleet National Bank	(1)
10.13	Fourth Modification to Credit Agreement and Revolving Credit Note dated December 12, 1995, between the Company and Fleet National Bank	(1)
10.14	Lease dated February 27, 1989, between the Company and Middletown Technology Associates IV	(1)
10.17	Registration Rights Agreement dated May 20, 1986, by and among the Company and certain stockholders of the Company	(1)

(Continued)

Number	Description	Note
10.18	Amendment to Registration Rights Agreement dated January 25, 1988, by and among the Company, Fleet Venture Resources, Inc., and Fleet Venture Partners I and certain stockholders of the Company	(1)
10.19	Amendment to Registration Rights Agreement dated October 25, 1988, by and among the Company and certain stockholders of the Company	(1)
10.20	Amendment to Registration Rights Agreement dated July 21, 1989, by and among the Company and certain stockholders of the Company	(1)
10.21	Third Amendment to Registration Rights Agreement dated November 3, 1989, by and among the Company and certain stockholders of the Company	(1)
10.28	Technology License Agreement dated December 22, 1992, between the Company and Etak, Inc.	(1)
10.29	Agreement dated September 28, 1995, between the Company and Thomson Consumer Electronics, Inc.	(1)
10.31	Agreement regarding Technology Affiliates Program between Jet Propulsion Laboratory and the Company	(1)
10.32	Purchase and Sale Agreement dated March 18, 1996, 50 Enterprise Center, Middletown, Rhode Island between the Company and SKW Real Estate Limited Partnership	(2)
10.33	Fifth Modification to Credit Agreement and Revolving Note dated August 8, 1996, between the Company and Fleet National Bank	
10.34	Andrew Corporation Asset Purchase and Warrant Agreement	(3)
10.35	Sixth Modification to Credit Agreement and Revolving Note dated September 29, 1998, between the Company and Fleet National Bank	(3)
10.36	Seventh Modification to Credit Agreement and Revolving Note dated July 30, 1999, between the Company and Fleet National Bank	(5)
10.37	Eighth Modification to Credit Agreement and Revolving Note dated October 29, 1999, between the Company and Fleet National Bank	(5)
10.38	Loan and Security Agreement dated March 27, 2000, between the Company and Fleet Capital Corporation	(5)
10.39	Common Stock Purchase Agreement between KVH Industries, Inc., and Special Situations Fund, III, L.P., Special Situations Cayman Fund, L.P., Special Situations Private Equity Fund, L.P. and Special Situations Technology Fund, L.P. dated March 30, 2001	(7)
10.40	Common Stock Purchase Agreement between KVH Industries, Inc. and the State of Wisconsin Investment Board pursuant to a Common Stock Purchase Agreement dated April 16, 2001	(7)
10.41	Common Stock Purchase Agreement between KVH Industries, Inc. and the Massachusetts Mutual Life Insurance Company dated May 25, 2001	(7)
10.42	Open End Mortgage, and Security Agreement	(6)
10.43	Tinley Park, Illinois, lease	(6)
10.44	Private Placement Share Purchase Agreement	(4)
21.01	List of Subsidiaries of the Company	(1)
23.01	Consent of KPMG LLP	

(1) Incorporated by Reference to Exhibit Index on Form S-1 filed with the Securities and Exchange Commission dated March 28, 1996, Registration No. 333-01258.

(2) Filed by paper with the Securities and Exchange Commission.

(3) Incorporated by reference to Exhibits 1 & 2 on Form 8-K filed with the Securities and Exchange Commission dated November 14, 1997.

(4) Incorporated by reference to Exhibit 10.39 on Form 8-K filed with the Securities and Exchange Commission dated January 5, 2001.

(5) Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

(6) Incorporated by reference to Exhibits 99.1 and 99.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

(7) Incorporated by reference to Exhibits 10.39 through 10.42 to the Company's Current Reports on Form 8-K filed with the Securities and Exchange Commission on April 19, 2001 and June 11, 2001.

(b) Reports on Form 8-K

There were nor Reports on Form 8-K filed for the period of this report.

SIGNATURE

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

Date: July 19, 2002

KVH Industries, Inc.

By: /s/ Patrick J. Spratt

Patrick J. Spratt
(Duly Authorized Officer and
Chief Financial and Accounting Officer)