

---

---

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended: **March 31, 2009**

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**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**05-0420589**  
*(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)*

---

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes**  **No**

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

Date	Class	Outstanding shares
May 6, 2009	Common Stock, par value \$0.01 per share	13,971,092

---

---

[Table of Contents](#)

**KVH INDUSTRIES, INC. AND SUBSIDIARY**  
**Form 10-Q**  
**INDEX**

	<u>Page No.</u>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
ITEM 1. <a href="#">FINANCIAL STATEMENTS</a>	
<a href="#">Condensed Consolidated Balance Sheets as of March 31, 2009 (unaudited) and December 31, 2008</a>	3
<a href="#">Condensed Consolidated Statements of Operations for the three months ended March 31, 2009 and 2008 (unaudited)</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2009 and 2008 (unaudited)</a>	5
<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	6
ITEM 2. <a href="#">MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	15
ITEM 3. <a href="#">QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	21
ITEM 4. <a href="#">CONTROLS AND PROCEDURES</a>	21
<b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 1. <a href="#">LEGAL PROCEEDINGS</a>	23
ITEM 1A. <a href="#">RISK FACTORS</a>	23
ITEM 2. <a href="#">UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</a>	33
ITEM 6. <a href="#">EXHIBITS</a>	34
<a href="#">SIGNATURE</a>	35
<a href="#">EXHIBIT INDEX</a>	36

**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements**

**KVH INDUSTRIES, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts, unaudited)

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,900	\$ 4,979
Marketable securities	33,236	37,681
Accounts receivable, net of allowance for doubtful accounts of approximately \$562 as of March 31, 2009 and \$333 as of December 31, 2008	11,882	13,960
Inventories	14,408	15,484
Prepaid expenses and other assets	1,178	731
Costs and estimated earnings in excess of billings on uncompleted contracts	62	44
Deferred income taxes	32	32
<b>Total current assets</b>	<u>64,698</u>	<u>72,911</u>
Property and equipment, less accumulated depreciation of \$19,642 as of March 31, 2009 and \$19,050 as of December 31, 2008	12,955	13,286
Other non-current assets	4,900	4,226
Deferred income taxes	3,334	3,334
<b>Total assets</b>	<u><b>\$85,887</b></u>	<u><b>\$ 93,757</b></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,755	\$ 5,488
Accrued compensation and employee-related expenses	2,915	3,013
Accrued other	2,678	2,766
Accrued product warranty costs	1,063	1,139
Accrued professional services	299	256
Current portion of long-term debt	—	2,026
<b>Total current liabilities</b>	<u>9,710</u>	<u>14,688</u>
Commitments and contingencies (notes 3 and 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; none issued	—	—
Common stock, \$0.01 par value. Authorized 20,000,000 shares, 15,140,463 and 15,127,327 shares issued at March 31, 2009 and December 31, 2008; 13,939,139 and 14,049,047 shares outstanding at March 31, 2009 and December 31, 2008, respectively	151	151
Additional paid-in capital	93,253	92,932
Accumulated deficit	(7,830)	(5,273)
Accumulated other comprehensive income	74	129
Less: treasury stock at cost, common stock, 1,201,324 shares as of March 31, 2009 and 1,078,280 shares as of December 31, 2008	(9,471)	(8,870)
<b>Total stockholders' equity</b>	<u>76,177</u>	<u>79,069</u>
<b>Total liabilities and stockholders' equity</b>	<u><b>\$85,887</b></u>	<u><b>\$ 93,757</b></u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

[Table of Contents](#)

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

	Three months ended	
	March 31,	
	2009	2008
<b>Sales:</b>		
Product	\$15,565	\$21,247
Service	2,710	1,886
Net sales	<u>18,275</u>	<u>23,133</u>
<b>Costs and expenses:</b>		
Costs of product sales	11,090	12,447
Costs of service sales	1,687	945
Sales, marketing and support	4,159	4,084
Research and development	2,115	2,335
General and administrative	1,927	1,746
Total costs and expenses	<u>20,978</u>	<u>21,557</u>
(Loss) income from operations	(2,703)	1,576
Interest income	112	449
Interest expense	12	45
Other expense	2	206
(Loss) income before income taxes	(2,605)	1,774
Income tax (benefit) expense	(48)	193
<b>Net (loss) income</b>	<b><u>\$ (2,557)</u></b>	<b><u>\$ 1,581</u></b>
<b>Per share information:</b>		
<b>Net (loss) income per share, basic and diluted</b>	<b><u>\$ (0.18)</u></b>	<b><u>\$ 0.11</u></b>
<b>Number of shares used in per share calculation:</b>		
<b>Basic</b>	<b><u>14,011</u></b>	<b><u>14,670</u></b>
<b>Diluted</b>	<b><u>14,011</u></b>	<b><u>14,672</u></b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended	
	March 31,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$(2,557)	\$ 1,581
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	591	571
Compensation expense related to awards and employee stock purchase plan	389	338
Provision for doubtful accounts, net	311	16
Loss on foreign currency forward exchange contracts	—	478
Changes in operating assets and liabilities:		
Accounts receivable	1,767	(2,027)
Costs and estimated earnings in excess of billings on uncompleted contracts	(18)	—
Inventories	1,076	(801)
Prepaid expenses and other current assets	(447)	(50)
Other non-current assets	(674)	(337)
Accounts payable	(2,733)	1,500
Accrued expenses	(290)	(102)
Deferred sales	—	(9)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,585)</b>	<b>1,158</b>
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	(4,815)	(362)
Maturities and sales of marketable securities	9,205	—
Capital expenditures	(260)	(563)
<b>Net cash provided by (used in) investing activities</b>	<b>4,130</b>	<b>(925)</b>
<b>Cash flows from financing activities:</b>		
Repayments of mortgage loan	(2,026)	(32)
Proceeds from stock options and employee stock purchase plan	50	62
Payment of employee restricted stock withholdings	(47)	—
Repurchase of common stock	(601)	(2,558)
<b>Net cash used in financing activities</b>	<b>(2,624)</b>	<b>(2,528)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,079)</b>	<b>(2,295)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4,979</b>	<b>12,284</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,900</b>	<b>\$ 9,989</b>
Supplemental disclosure of noncash financing activity:		
Employee stock purchase plan activity	\$ 21	\$ —

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**KVH INDUSTRIES, INC. AND SUBSIDIARY**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited, all amounts in thousands except share and per share amounts)**

**(1) Description of Business**

KVH Industries, Inc. (the Company or KVH) develops, manufactures and markets mobile communications products for the marine, land mobile and in-flight markets, and navigation, guidance and stabilization products for both defense and commercial markets.

KVH's mobile communications products enable customers to receive live digital television, telephone and Internet services in their automobiles, recreational vehicles and marine vessels while in motion via satellite and wireless services. KVH sells its mobile communications products through an extensive international network of retailers, distributors and dealers. KVH also leases the TracPhone V7 product directly to end users.

KVH's mobile communications service sales includes sales earned from product repairs, sales from satellite telephone and Internet usage services, and certain DIRECTV and DISH Network account subsidies and referral fees earned in conjunction with the sale of its products. KVH provides, for monthly usage fees, third-party satellite connectivity for voice, data and Internet services to its Inmarsat TracPhone customers who choose to activate their subscriptions with KVH. KVH also earns monthly fixed and usage fees for satellite connectivity sales from Broadband Internet, data and Voice over Internet Protocol (VOIP) service to its TracPhone V7 customers. Under current DIRECTV and DISH Network programs, KVH is eligible to receive a one-time subsidy for each receiver activated for service and a new mobile account activation fee from DIRECTV and DISH Network for each customer who activates their DIRECTV or DISH Network service directly through KVH. In addition, KVH sells extended warranty programs primarily for its mobile communications products.

KVH offers precision fiber optic gyro-based systems that enable platform stabilization and munitions guidance. KVH's guidance and stabilization products also include tactical navigation systems that provide uninterrupted access to navigation and pointing information in a spectrum of military vehicles, including tactical trucks and light armored vehicles. KVH's guidance and stabilization products are sold directly to U.S. and allied governments and government contractors, as well as through an international network of authorized independent sales representatives. In addition, KVH's guidance and stabilization products have numerous commercial applications such as train location control and track geometry measurement systems, industrial robotics and optical stabilization.

KVH's guidance and stabilization service sales include product repairs and engineering services provided under development contracts.

**(2) Basis of Presentation**

The accompanying condensed consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiary, KVH Europe A/S (collectively, KVH or the Company), have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission regarding interim financial reporting. Given that KVH Europe A/S operates as the Company's European and international distributor, all of its operating expenses are reflected within sales, marketing and support within the accompanying condensed consolidated statements of operations. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have not been audited by our independent registered public accounting firm, but include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods presented. These condensed consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 13, 2009 with the Securities and Exchange Commission. The results for the three months ended March 31, 2009 are not necessarily indicative of operating results for the remainder of the year.

**(3) Significant Estimates and Assumptions**

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. Significant estimates and assumptions by management affect the Company's revenue recognition, valuation of accounts receivable, valuation of inventory, valuation of deferred tax assets, certain accrued expenses and accounting for contingencies.

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.

**(4) Stock-Based Compensation**

The Company recognizes stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment." Stock-based compensation expense was \$389 and \$338 for the three months ended March 31, 2009 and March 31, 2008, respectively. As of March 31, 2009, there was \$1,094 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 1.97 years. As of March 31, 2009, there was \$2,854 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 3.23 years.

The Company granted 478,100 restricted stock awards to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three months ended March 31, 2009. The restricted stock awards vest ratably over four years from the date of grant subject to the recipient remaining employed 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 estimated forfeitures.

A total of 210,000 of the restricted stock awards granted during the three months ended March 31, 2009 were performance-based awards granted to executives. Of these restricted stock awards, 105,000 will vest ratably over four years from date of grant provided that the Company achieves two specific mini-VSAT sales objectives in 2009 and the remaining 105,000 will vest ratably over four years from date of grant provided that the Company achieves certain fiber optic gyro production output targets in 2009. As of March 31, 2009, the Company believes it is probable it will achieve its performance targets for the year ending December 31, 2009. As a result, the Company recorded expense in the quarter ended March 31, 2009 related to the performance-based restricted stock awards, the amount of which was not material.

The Company also granted 2,500 stock options to an employee under the terms of the Amended and Restated 2003 Incentive and Nonqualified Stock Option Plan during the three months ended March 31, 2009.

The fair value of stock options granted for the three months ended March 31, 2009 was estimated as of the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for all options granted during the three months ended March 31, 2009 and 2008 was \$1.80 and \$2.84, respectively. The weighted-average assumptions used to value options as of their grant date were as follows:

	Three months ended	
	March 31,	
	2009	2008
Risk-free interest rate	1.63%	2.79%
Expected volatility	43.6%	43.3%
Expected life (in years)	4.06	4.23
Dividend yield	0%	0%

## [Table of Contents](#)

### (5) Net (Loss) Income per Common Share

Basic net (loss) income per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury stock accounting method. Common stock equivalents related to options and restricted stock awards for 1,607,761 shares of common stock for the three months ended March 31, 2008 have been excluded from the fully diluted calculation of net income per share, as inclusion would be anti-dilutive.

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

	Three months ended	
	March 31,	
	2009	2008
Weighted average common shares outstanding – basic	14,011,448	14,669,543
Dilutive common shares issuable in connection with stock plans	—	2,594
Weighted average common shares outstanding – diluted	14,011,448	14,672,137

### (6) Inventories

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of March 31, 2009 and December 31, 2008 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	March 31, 2009	December 31, 2008
Raw materials	\$ 10,255	\$ 10,680
Work in process	1,242	1,385
Finished goods	2,911	3,419
	<u>\$ 14,408</u>	<u>\$ 15,484</u>

### (7) Comprehensive (Loss) Income

Comprehensive (loss) income includes net (loss) income and other comprehensive (loss) income. Other comprehensive (loss) income includes the effects of unrealized gains or losses on available-for-sale marketable securities that are separately included in accumulated other comprehensive income within stockholders' equity. The Company's comprehensive (loss) income for the periods presented is as follows:

	Three months ended	
	March 31,	
	2009	2008
Net (loss) income	\$(2,557)	\$ 1,581
Unrealized loss on available-for-sale securities	(55)	—
Total comprehensive (loss) income	<u>\$(2,612)</u>	<u>\$ 1,581</u>

### (8) Product Warranty

The Company's products carry limited warranties that range from one to three years and vary by product. The warranty period begins on the date of retail purchase 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, historical and anticipated rates of warranty repairs and the estimated cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying statements



## [Table of Contents](#)

of operations. As of March 31, 2009 and December 31, 2008, the Company had accrued product warranty costs of \$1,063 and \$1,139, respectively. The following table summarizes product warranty activity for the periods presented:

	Three months ended	
	March 31,	
	2009	2008
Beginning balance	\$ 1,139	\$ 778
Charges to expense	242	273
Costs incurred	(318)	(300)
Ending balance	<u>\$ 1,063</u>	<u>\$ 751</u>

### (9) Income Taxes

The Company recorded net deferred tax assets in the amount of \$3,366 as of March 31, 2009 and December 31, 2008. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities for the periods presented are as follows:

	March 31, 2009	December 31, 2008
Deferred tax assets:		
Accounts receivable, due to allowance for doubtful accounts	\$ 271	\$ 224
Inventories	703	571
Operating loss carry-forwards	3,365	2,613
Stock-based compensation expense	1,193	1,131
Intangibles due to differences in amortization	77	102
Federal research and development, alternative minimum tax credit carry-forwards	2,617	860
Foreign tax credit carry-forwards	943	873
State tax credit carry-forwards	1,388	789
Accrued expenses	845	905
Gross deferred tax assets	<u>11,402</u>	<u>8,068</u>
Deferred tax liability:		
Property and equipment, due to differences in depreciation	(533)	(578)
Less valuation allowance	(7,503)	(4,124)
Net deferred tax assets	<u>\$ 3,366</u>	<u>\$ 3,366</u>

As of March 31, 2009 and December 31, 2008, \$32 of the Company's net deferred tax assets is attributable to future deductible amounts within the Danish tax jurisdiction for the Company's wholly owned subsidiary located in Denmark.

As of March 31, 2009, the Company had federal net operating loss carry-forwards available to offset future taxable income of \$9,239. The Company also had state net operating loss carry-forwards available to offset future state taxable income of \$4,653. The federal net operating loss carry-forwards expire in years 2023 through 2029. State net operating loss carry-forwards expire in years 2009 through 2014. The tax benefit related to \$5,171 of federal and \$2,727 of state net operating loss carry-forwards would occur upon utilization of these deferred tax assets to reduce taxes payable and would result in a credit to additional paid-in capital within stockholders' equity rather than the provision for income taxes.

As of March 31, 2009, the Company had federal research and development tax credit carry-forwards in the amount of \$2,473 that expire in years 2020 through 2028, and foreign tax credit carry-forwards in the amount of \$943 that expire in years 2015 through 2019. The Company also had alternative minimum tax credits of \$144 that have no expiration date. As of March 31, 2009, the Company had state research and development

## [Table of Contents](#)

tax credit carry-forwards in the amount of \$2,043 that expire in years 2009 through 2015. The Company also had other state tax credit carry-forwards of \$358 available to reduce future state tax expense that expire in years 2009 through 2014.

The Company's ability to utilize these net operating loss carry-forwards and credits 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 changes by more than 50% over a three-year period.

The Company periodically evaluates its deferred tax assets for recoverability using a consistent approach that considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company establishes a valuation allowance for deferred tax assets and records a charge to income or stockholders' equity if it determines, based on available evidence at the time the determination is made, that it is not more likely than not that some or all of the deferred tax assets will be realized. In evaluating the need for a valuation allowance, the Company estimates future taxable income based on management-approved business plans and ongoing tax planning strategies.

At December 31, 2008, the Company had recorded a valuation allowance of \$4,124 against gross deferred tax assets of \$8,068. During the first quarter of 2009, the Company completed a federal and state research and development tax credit review covering the years 2000 through 2006. As a result of this review, as of March 31, 2009 the Company recorded an additional gross deferred tax asset with an offsetting valuation allowance in the amount of \$1,758 related to federal research and development credits and an additional \$599 gross deferred tax asset with an offsetting valuation allowance related to state research and development credits.

The valuation allowance that the Company has recorded reflects management's judgment that, after considering all of the available objective evidence, including available tax planning strategies, historical and prospective results of operations, with greater weight given to historical evidence, it is more likely than not that that portion of the asset will not be realized.

Net deferred tax assets of \$3,366 at March 31, 2009 consist primarily of federal net operating loss carry-forwards that are available to offset future taxable income. Management's conclusion that it is more likely than not that these net deferred tax assets are realizable is based in part upon its tax planning strategy. The Company's strategy to utilize these assets is premised upon its ability to sell its property located in Middletown, Rhode Island in order to generate taxable income to utilize these loss carry-forwards before they expire. This is not an action that the Company would ordinarily take, but one that it would take, if necessary, to realize the tax benefits prior to their expiration. Management's conclusion that \$3,366 of the Company's deferred tax assets are realizable as of March 31, 2009 is based upon its belief that, should the Company decide to execute on this strategy, the property sale would generate net taxable gains sufficient to utilize that amount of the deferred tax assets. The Company's estimate as to the value of its net deferred tax assets therefore depends substantially upon an assessment of the fair market value of the Middletown property. Future changes in property values in and around the Middletown, Rhode Island area or in the assumptions used in the valuation process could result in a different estimate of the fair value of the property, which in turn could require the Company to revise its estimate of the amount of its deferred tax assets that is realizable. Any such change in the amount of the Company's net deferred tax assets could have a material effect on its results of operations.

Should the Company generate net income in 2009 and project net income for 2010 and beyond, the Company may determine, after considering all available objective evidence, that it is more likely than not that some or all of its net deferred tax assets would be realized. Should that determination be made, the Company would reverse all or a portion of its deferred tax assets valuation allowance at such time and recognize a reduction of income tax expense (as of March 31, 2009 the maximum amount of any reduction which would impact income tax expense was \$5,614). In addition, as a portion of the Company's deferred tax assets was generated from excess tax deductions from share-based payment awards, pursuant to SFAS No. 123(R), a portion of such valuation allowance reversal would be recorded to additional paid-in capital when the deduction reduces taxes payable (as of March 31, 2009 such amount would have been \$1,889).

The Company's policy is that undistributed earnings of its foreign subsidiary are indefinitely reinvested and accordingly, certain U.S. federal and state income taxes have not been provided. Upon distribution of those earnings in the form of dividends or otherwise, the Company will be subject to additional U.S. and state income taxes (less foreign tax credits), as well as withholding taxes in Denmark. The amount of undistributed earnings is approximately \$2,600 for which the amount of taxes attributable is not practicably determinable.

The Company adopted the provisions of FASB Interpretation (FIN) No. 48 effective January 1, 2007. The Company did not have any material unrecognized tax benefits at December 31, 2008 and March 31, 2009. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company files United States Federal, state and Danish income tax returns. In general, the statute of limitations with respect to the Company's United States Federal income taxes has expired for years prior to 2005. Expiration dates of the statutes of limitation under the relevant state statutes vary by jurisdiction. However, preceding years remain open to examination by United States Federal and state taxing authorities to the extent of future utilization of net operating losses and research and development tax credits generated in each preceding year. The Company generally is no longer subject to income tax examinations by the Danish tax authorities for years before 2005.

**(10) Segment Reporting**

Under common operational management, the Company designs, develops, manufactures and markets its navigation, guidance and stabilization and mobile communication products for use in a wide variety of applications. Products are generally sold directly to third-party consumer electronic dealers and retailers, consumer manufacturers, government contractors or directly to U.S. and other foreign government agencies. Primarily, sales originating in North America consist of sales within the United States and Canada and, to a lesser extent, Mexico, Asia/Pacific and some Latin and South American countries. North American sales also include all guidance and stabilization product sales throughout the world. Sales originating from the Company's Denmark subsidiary principally consist of sales into all European countries, both inside and outside the European Union, as well as Africa, the Middle East, India and all countries in Asia.

The Company operates in two geographic segments, exclusively in the mobile communications, navigation and guidance equipment industry, which it considers to be a single business activity. The Company has two primary industry categories: mobile communication and guidance and stabilization. Mobile communication sales include marine, automotive and land mobile communication equipment, product repairs, satellite-based telephone and Internet usage services, television account subsidies and referral fees earned in conjunction with the sale of the Company's products, and Broadband Internet connectivity and VOIP services sold with the Company's mini-VSAT product. Guidance and stabilization product sales include sales of commercial marine and defense-related navigation, guidance and stabilization equipment based upon digital compass and fiber optic sensor technology. Guidance and stabilization sales also include product repairs and engineering services provided under development contracts.

## [Table of Contents](#)

The following table summarizes information regarding the Company's operations by geographic segment:

	Sales Originating From		
	North America	Europe	Total
<b><i>Three months ended March 31, 2009</i></b>			
Mobile communication sales to the United States	\$ 6,690	\$ —	\$ 6,690
Mobile communication sales to Canada	213	—	213
Mobile communication sales to Europe	619	2,612	3,231
Mobile communication sales to other geographic areas	162	751	913
Guidance and stabilization sales to the United States	2,959	—	2,959
Guidance and stabilization sales to Canada	368	—	368
Guidance and stabilization sales to Europe	2,846	—	2,846
Guidance and stabilization sales to other geographic areas	1,055	—	1,055
Intercompany sales	1,520	—	1,520
Subtotal	16,432	3,363	19,795
Eliminations	(1,520)	—	(1,520)
Net sales	<u>\$ 14,912</u>	<u>\$ 3,363</u>	<u>\$ 18,275</u>
Segment net (loss) income	\$ (2,710)	\$ 153	\$ (2,557)
Depreciation	\$ 584	\$ 7	\$ 591
Total assets	\$ 81,143	\$ 4,744	\$ 85,887
<b><i>Three months ended March 31, 2008</i></b>			
Mobile communication sales to the United States	\$ 11,329	\$ —	\$ 11,329
Mobile communication sales to Canada	367	—	367
Mobile communication sales to Europe	160	4,719	4,879
Mobile communication sales to other geographic areas	257	1,234	1,491
Guidance and stabilization sales to the United States	4,163	—	4,163
Guidance and stabilization sales to Canada	52	—	52
Guidance and stabilization sales to Europe	775	—	775
Guidance and stabilization sales to other geographic areas	77	—	77
Intercompany sales	3,705	—	3,705
Subtotal	20,885	5,953	26,838
Eliminations	(3,705)	—	(3,705)
Net sales	<u>\$ 17,180</u>	<u>\$ 5,953</u>	<u>\$ 23,133</u>
Segment net income	\$ 1,279	\$ 302	\$ 1,581
Depreciation	\$ 561	\$ 10	\$ 571
Total assets	\$ 87,135	\$ 5,692	\$ 92,827

### (11) Legal Matters

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

### (12) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value

measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which we adopted on January 1, 2008. In February 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2. This FSP permits the delayed application of No. SFAS 157 for all non-recurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. The application of SFAS No. 157 for all non-recurring fair value measurements of non-financial assets and liabilities became effective during the first quarter of 2009 and did not have a material impact on the Company's condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS No. 161). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS No. 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. SFAS No. 161 became effective during the first quarter of 2009 and did not have a material impact on the Company's condensed consolidated financial statements, as the Company had no derivative instruments outstanding as of March 31, 2009.

**(13) Share Buyback Program**

On November 26, 2008, the Company's Board of Directors authorized a program to repurchase up to one million shares of the Company's common stock. As of March 31, 2009, 798,676 shares of the Company's common stock remain available for repurchase under the authorized program. The repurchase program is funded using the Company's existing cash, cash equivalents, marketable securities and future cash flows. Under the repurchase program, the Company, at management's discretion, may repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases depends on availability of shares, price, market conditions, alternative uses of capital, and applicable regulatory requirements. The program may be modified, suspended or terminated at any time without prior notice. The repurchase program has no expiration date. There were no other repurchase programs outstanding during the three months ended March 31, 2009, and no repurchase programs expired during the period.

The Company repurchased 123,044 shares of its common stock in the three months ended March 31, 2009 at a cost of \$601.

**(14) Long-Term Aviation Antenna Development and Production Agreement**

On February 18, 2008, the Company entered into a \$20,055 long-term antenna development and production agreement (the "Agreement"). Under the terms of the Agreement, the Company will design, develop, and manufacture DIRECTV-compatible satellite television antennas to be used on narrowbody commercial aircraft operating in the United States. In accordance with Emerging Issues Task Force Issue No. 99-5, "Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements," and the Agreement, the Company has capitalized \$3,835 in related development costs, which the Company has a contractual right to recover, and which are reflected in other non-current assets as of March 31, 2009. These costs will be expensed into cost of sales as antennas are sold in proportion to the number of antennas delivered versus the total contractual antenna production requirement. The Company expects to begin production of the antennas in the second quarter of 2009.

**(15) Fair Value Measurements**

Effective January 1, 2008, the Company adopted the required provisions of SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in

## Table of Contents

the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 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. SFAS No. 157 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, government agency bonds, United States treasuries and certificates of deposit.
- 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 inputs.
- 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 inputs.

The following table presents financial assets at March 31, 2009 for which the Company measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Money market mutual funds	\$16,212	—	—	\$16,212
Government agency bonds	10,071	—	—	10,071
United States treasuries	4,064	—	—	4,064
Certificates of deposit	2,889	—	—	2,889

Certain financial instruments are carried at cost on the condensed consolidated balance sheets, which 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.

### (16) Business and Credit Concentrations

Significant portions of KVH's net sales are as follows:

Net sales to Customer A

<u>Three months ended</u>	
<u>March 31,</u>	
<u>2009</u>	<u>2008</u>
13.3%	*

\* Represents less than 10% of net sales in the respective year.

### (17) Subsequent Event

On April 6, 2009, the Company entered into a mortgage loan in the amount of \$4,000. The note term is 10 years and during the term, the interest rate will be a rate per year adjusted periodically based on a defined interest period equal to the British Bankers' Association London Interbank Offered Rate (BBA Libor) plus 2.25 percentage points. Land, building and improvements with an approximate carrying value of \$5,273 as of March 31, 2009 secure the mortgage loan. The monthly mortgage payment is approximately \$9 plus interest beginning on May 1, 2009 and increasing in increments of approximately \$1 each year throughout the life of the mortgage. Due to the difference in the term of the note and amortization of the principal, a balloon payment of approximately \$2,551 plus interest is due on April 1, 2019. The loan contains one financial covenant, a Fixed Charge Coverage Ratio, which applies in the event that the Company's consolidated cash, cash equivalents and marketable securities balance falls below \$25,000 at any time. The Company was compliant with this financial covenant as of March 31, 2009.

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

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

**Overview**

We are a leading manufacturer of solutions that provide global high-speed internet, television, and voice services via satellite to mobile users at sea, on land, and in the air. We are also a premier manufacturer of high-performance navigational sensors and integrated inertial systems for defense and commercial guidance and stabilization applications.

Our mobile satellite business includes receive-only TracVision satellite TV systems, 2-way TracPhone satellite communications systems, and the mini-VSAT Broadband airtime service. Our TracVision mobile satellite TV systems enable mobile reception in vehicles or vessels of most leading satellite TV services, such as DIRECTV, DISH Network, and ExpressVu in North America, and Astra and Eutelsat in Europe. In February 2008, we entered the aviation market with a development and production contract for a satellite TV antenna that will be sold on an OEM basis by LiveTV. Our TracPhone satellite communications systems enable reception of Inmarsat L-Band MSS services or our own mini-VSAT Broadband Ku-band FSS service, and are sold primarily to mariners. We sell our mobile satellite products and airtime services through our direct sales force and an extensive international network of independent sales representatives, distributors and retailers to leisure, commercial, and government customers.

Our guidance and stabilization products use our precision FOG and digital compass technologies to help stabilize platforms such as antennas, gun turrets, optical systems, material handling equipment, and radar units and to provide guidance for torpedoes and other munitions. These products are either integrated within our own navigation and antenna systems or sold as modules to other manufacturers. We also use our FOG and digital compass technology to produce some variants of our TACNAV line of navigation systems for military vehicles. We sell our guidance and stabilization products to commercial and military customers either directly to U.S. and allied governments and government contractors or through an international network of authorized independent sales representatives.

We generate sales primarily from the sale of our mobile satellite systems and services and our guidance and stabilization products and services. The following table provides, for the periods indicated, our sales by industry category:

	<b>Three months ended March 31, (in thousands)</b>	
	<b>2009</b>	<b>2008</b>
Mobile communications	\$ 11,047	\$ 18,066
Guidance and stabilization	7,228	5,067
Net sales	<u>\$ 18,275</u>	<u>\$ 23,133</u>

## [Table of Contents](#)

In addition to revenue from product sales, our mobile satellite revenue includes revenue earned from product repairs, revenue from satellite phone and Internet usage services, and certain DIRECTV account referral fees earned in conjunction with the sale of our products. We provide, for a fee, third-party satellite phone and Internet airtime to our TracPhone and Internet customers who choose to activate their subscriptions with us. We also earn revenue from service sold with our mini-VSAT products. Under current DIRECTV programs, we are eligible to receive a one-time, new mobile account activation fee from DIRECTV for each customer who activates their DIRECTV service directly through us. Our guidance and stabilization revenue primarily includes product sales to both military and commercial markets and, to a lesser extent, revenue from product repairs and engineering services provided under development contracts.

Our guidance and stabilization business is characterized by a small number of customers who place a small number of relatively large dollar value orders. Orders for our guidance and stabilization products typically vary in size and are sometimes in the range of several hundred thousand dollars to over one million dollars. Each order can have a significant impact on our sales, and because our guidance and stabilization products generally have higher gross margins than our mobile communications products, each order can have an impact on our net income that is disproportionately large relative to the sales generated by the order.

We have historically derived a substantial portion of our sales from sales to customers located outside the United States. Note 10 of the notes to the condensed consolidated financial statements provides information regarding our sales to specific geographic regions.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our condensed 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, sales and expenses, and related disclosure at the date of our financial statements. Our significant accounting policies are summarized in note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

As described in our Form 10-K for the year ended December 31, 2008, our most critical accounting policies and estimates upon which our consolidated financial statements were prepared were those relating to revenue recognition, allowances for accounts receivable, inventories, income taxes and deferred income tax assets and liabilities and warranty. We have reviewed our policies and determined that these remain our most critical accounting policies for the quarter ended March 31, 2009, except as set forth below. Readers should refer to our 2008 Form 10-K under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” for the detailed descriptions of these policies.

### ***Income Taxes and Deferred Income Tax Assets and Liabilities***

Our deferred tax assets and liabilities reflect the future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and of tax credits. Deferred tax assets arise when a company’s financial statements recognize charges or expenses that, for income tax purposes, will not be allowed as deductions until future periods. For example, when a corporation accrues an expense in its financial statements that it is not allowed to deduct on its federal tax return until paid in the future, the future tax benefit of that expense is generally recorded in the income statement as a reduction of income tax expense and in the balance sheet as a deferred tax asset. The same general treatment applies to the carry forward of unused net operating losses and unused tax credits. Deferred tax assets are often netted with deferred tax liabilities when presented in the balance sheet and are referred to as net deferred tax assets. We measure our deferred tax assets and liabilities using the tax rates and laws we expect to be in effect at the time of their reversal or utilization.

Under SFAS No. 109, “Accounting for Income Taxes,” a net deferred tax asset may be carried on the balance sheet at its full value only if it is more likely than not that the deductions, losses, or credits giving rise to such deferred tax asset will be used in the future. We periodically evaluate our deferred tax assets for recoverability using a consistent approach that considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income. The ultimate realization



## [Table of Contents](#)

of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. Under U.S. generally accepted accounting principles (GAAP), we are required to establish a valuation allowance for deferred tax assets and record a charge to income or stockholders' equity if we determine, based on available evidence at the time the determination is made, that it is not more likely than not that some or all of the deferred tax assets will be realized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management-approved business plans and ongoing tax planning strategies. This process involves significant management judgment based upon assumptions that are subject to change from period to period as a result of changes in circumstances, changes in tax laws, variances between our projected operating performance and our actual results and other factors.

At December 31, 2008, we had recorded a valuation allowance of \$4,124 against gross deferred tax assets of \$8,068. During the first quarter of 2009, we completed a federal and state research and development tax credit review covering the years from 2000 through 2006. As a result of this review, as of March 31, 2009 we recorded an additional gross deferred tax asset with an offsetting valuation allowance in the amount of \$1,758 related to federal research and development credits and an additional \$599 gross deferred tax asset with an offsetting valuation allowance related to state research and development credits.

The valuation allowance that we have recorded against a portion of our gross deferred tax assets is due to our management's judgment that, after considering all of the available objective evidence, including available tax planning strategies, historical and prospective results of operations, with greater weight given to historical evidence, it is more likely than not that that portion of the asset will not be realized.

Our net deferred tax assets of \$3,366 at March 31, 2009 consist primarily of federal net operating loss carry-forwards that are available to offset future taxable income. Our conclusion that it is more likely than not that these net deferred tax assets are realizable is based in part upon our tax planning strategy. Our strategy to utilize these assets is premised upon our ability to sell our property located in Middletown, Rhode Island in order to generate taxable income to utilize these loss carry-forwards before they expire. This is not an action that we would ordinarily take, but one that we would take, if necessary, to realize the tax benefits prior to their expiration. Our judgment that \$3,366 of our deferred tax assets are realizable as of March 31, 2009 is based upon our belief that, should we decide to execute on this strategy, the property sale would generate net taxable gains sufficient to utilize that amount of the deferred tax assets. Our estimate as to the amount of our net deferred tax assets therefore depends substantially upon an assessment of the fair market value of the Middletown property. Future changes in property values in and around the Middletown, Rhode Island area or in the assumptions used in the valuation process could result in a different estimate of the fair value of the property, which in turn could require us to revise our estimate of the amount of our deferred tax assets that is realizable. Any such change in the amount of our net deferred tax assets could have a material effect on our results of operations.

## Results of Operations

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

	Three months ended	
	March 31,	
	2009	2008
<b>Sales:</b>		
Product	85.2%	91.9%
Service	14.8	8.1
Net sales	<u>100.0</u>	<u>100.0</u>
<b>Costs and expenses:</b>		
Costs of product sales	60.7	53.8
Costs of service sales	9.2	4.1
Sales, marketing and support	22.8	17.7
Research and development	11.6	10.1
General and administrative	<u>10.5</u>	<u>7.5</u>

## [Table of Contents](#)

	Three months ended March 31,	
	2009	2008
Total costs and expenses	114.8	93.2
(Loss) income from operations	(14.8)	6.8
Interest income	0.6	1.9
Interest expense	0.1	0.2
Other expense	0.0	0.9
(Loss) income before income taxes	(14.3)	7.6
Income tax (benefit) expense	(0.3)	0.8
Net (loss) income	(14.0)%	6.8%

### Three Months Ended March 31, 2009 and 2008

#### Net Sales

Product sales for the three months ended March 31, 2009 decreased \$5.6 million, or 27%, to \$15.6 million from \$21.2 million for the three months ended March 31, 2008. The weakening of the recreational vehicle market commencing in the second quarter of 2008 due in part to increased fuel prices, and the crisis of consumer confidence in the general economy during the second half of the year, caused declines in demand for our land mobile products and our marine consumer products. Sales of our marine consumer products, principally our TracVision M-series satellite television products and Inmarsat-compatible TracPhone products, decreased by \$4.5 million, or 37%, compared with the three months ended March 31, 2008. In addition, sales of our land mobile products decreased by \$3.5 million, or 77%, compared to the three months ended March 31, 2008. Mobile communications product sales originating from our Danish subsidiary decreased \$2.7 million, or 49%, from the three months ended March 31, 2008 to the three months ended March 31, 2009. Contributing to this decrease in sales originating from our European location were unfavorable currency rate fluctuations between the Euro and the U.S. dollar. Mobile communications product sales originating from North America decreased \$5.3 million, or 47%, from the three months ended March 31, 2008 to the three months ended March 31, 2009.

Sales of our guidance and stabilization products increased by \$2.4 million, or 54%, from the three months ended March 31, 2008 to the three months ended March 31, 2009. Specifically, sales of our FOG products increased \$2.3 million, or 95%, driven largely by increased sales in support of remotely operated weapons station programs.

Service sales for the three months ended March 31, 2009 increased \$0.8 million, or 44%, to \$2.7 million from \$1.9 million for the three months ended March 31, 2008. The primary reason for the increase was a \$0.9 million increase in airtime sales for our mini-VSAT Broadband service that we launched in the fourth quarter of 2007, which was partially offset by a decline in service repair sales and contracted engineering service sales of \$0.1 million.

#### Costs of Sales

For the three months ended March 31, 2009, costs of product sales decreased by \$1.4 million, or 11%, to \$11.1 million for the three month ended March 31, 2009 from \$12.5 million for the three months ended March 31, 2008. The primary reasons for the decrease in dollar amount were the decline in unit sales and a shift in sales mix to lower priced marine products.

Costs of service sales increased by \$0.7 million, or 78%, to \$1.7 million for the three month ended March 31, 2009 from \$1.0 million for the three months ended March 31, 2008. This increase was driven by increased airtime usage of our mini-VSAT Broadband service as well as by increased costs related to the build out and operation of the network and support infrastructure for our mini-VSAT Broadband service as part of our initiative for the global expansion of that service. We expect these costs to continue to increase substantially during 2009.

Gross margin from product sales for the three months ended March 31, 2009 decreased to 29% from 41% in the year-ago period. The deterioration in our gross margin from product sales was attributable to under-utilization of our production capacity due to reduced unit sales, a higher level of price discounts to maintain our competitive position in the mobile communications marketplace and the increase in our inventory reserves.

Gross margin from service sales for the three months ended March 31, 2009 decreased to 38% from 50% in the year-ago period, as a result of increased costs related to the build out and operations of the network and support infrastructure for our mini-VSAT Broadband service. In the near term, we expect these costs to continue to grow more rapidly than the number of subscribers for, and revenues from, our mini-VSAT Broadband service. Also contributing to the decrease in gross margin from service sales was a \$0.1 million decline in service repair sales and contracted engineering service sales.

***Operating Expenses***

Sales, marketing and support expense for the three months ended March 31, 2009 increased by \$0.1 million, or 2%, to \$4.2 million from \$4.1 million for the three months ended March 31, 2008. As a percentage of sales, sales, marketing and support expense increased during the quarter ended March 31, 2009 to 23% from 18% for the quarter ended March 31, 2008, due primarily to the decrease in overall product sales discussed above.

Research and development expense for the three months ended March 31, 2009 decreased by \$0.2 million, or 9%, to \$2.1 million from \$2.3 million for the three months ended March 31, 2008. The primary reason for the decrease in 2009 expense was the capitalization of approximately \$0.6 million of aviation antenna development costs (see note 14 to the condensed consolidated financial statements) during the first quarter of 2009, partially offset by increased spending related to our initiative for the global expansion of our mini-VSAT Broadband satellite communication products and service. As a percentage of sales, research and development expense increased during the quarter ended March 31, 2009 to 12% from 10% for the quarter ended March 31, 2008, due primarily to the decrease in product sales discussed above.

General and administrative expense for the three months ended March 31, 2009 increased by \$0.2 million, or 10%, to \$1.9 million from \$1.7 million for the three months ended March 31, 2008. The primary reason for the increase in 2009 expense was \$0.1 million in accounting consultant fees related to the research and development tax credit study that was completed in the first quarter of 2009. Also contributing to the increase was increased legal fees associated with licensing arrangements in connection with the global expansion of our mini-VSAT Broadband satellite communication service. As a percentage of sales, general and administrative expenses increased during the quarter ended March 31, 2009 to 11% from 8% for the quarter ended March 31, 2008, due primarily to the decrease in product sales discussed above.

***Interest Income and Other Expense***

Interest income and other expense for the three months ended March 31, 2009 decreased by \$0.1 million to \$0.1 million from \$0.2 million for the three months ended March 31, 2008. The primary reason for the decrease was a \$0.3 million decrease in interest income in the 2009 period resulting from lower interest rates and a lower average amount of cash, cash equivalents and marketable securities invested during the three months ended March 31, 2009. Also contributing to the decrease was a \$0.3 million decrease in currency gains driven by a decrease in gains from remeasurement of transactions at our Danish subsidiary, which has the U.S. dollar as its functional currency. Partially offsetting these factors was a \$0.5 million decrease in losses related to foreign currency exchange contracts.

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

Income tax expense for the three months ended March 31, 2009 decreased by \$0.2 million to a benefit of (\$0.0) million from a provision of \$0.2 million for the three months ended March 31, 2008. Our effective tax rate was (1.8%) for the three months ended March 31, 2009 compared to 10.9% for the year-ago period. The primary reason for the decrease in 2009 was our \$2.6 million pre-tax loss. Also contributing to the decrease was a \$0.1 million federal income tax benefit recorded in 2009 from the monetization of research and development tax credits. We expect that substantially all of our 2009 taxable income generated from our U.S. operations will be offset by federal net operating losses generated by us in prior years. Accordingly, we expect that any tax expense generated by our U.S. operations in 2009 will be made up primarily of federal alternative minimum tax and to a lesser extent certain state tax expense. Taxable income generated by our subsidiary in Denmark will be subject to taxation at the Danish statutory rates as we have no net operating loss carry-forwards or tax credits available to offset current or future taxable income in that jurisdiction.

We regularly evaluate our valuation allowance recorded against our net deferred tax assets. Should we generate net income in 2009 and project net income for 2010 and beyond, we may determine, after considering all available evidence, that it is more likely than not that all or some additional portion of our net deferred tax assets would be realized. Should that determination be made, we would reverse all or a portion of the valuation allowance at such time and recognize a reduction of income tax expense (as of March 31, 2009, the maximum amount of reduction which could impact income tax expense totaled approximately \$5.6 million). In addition, as

## [Table of Contents](#)

a portion of our deferred tax assets were generated from excess tax deductions from share-based payment awards, pursuant to SFAS No. 123(R), a portion of any such valuation allowance reversal would be recorded to additional paid-in capital when the deduction reduces tax payable (as of March 31, 2009, such amount would total approximately \$1.9 million).

### **Liquidity and Capital Resources**

We have historically funded our operations primarily from operating cash flows, net proceeds from public and private equity offerings, bank financings and proceeds received from exercises of stock options. As of March 31, 2009, we had \$37.1 million in cash, cash equivalents and marketable securities and \$55.0 million in working capital.

Net cash used in operations was \$2.6 million for the three months ended March 31, 2009 as compared to net cash provided by operations of \$1.2 million for the three months ended March 31, 2008. The decrease is primarily due to a \$4.1 million decrease in net income coupled with a \$4.4 million increase in cash outflows related to accounts payable and accrued expenses, a \$0.4 million increase in cash outflows related to prepaid expenses and other current assets and a \$0.3 million increase in cash outflows related to other long term assets, consisting primarily of capitalized development costs related to our aviation antenna program. This increase in cash outflows was partially offset by a \$3.8 million increase in cash inflows attributable to changes in accounts receivable, primarily due to a decrease in our sales levels, coupled with a \$1.9 million increase in cash inflows related to decreased inventory levels.

Net cash provided by investing activities was \$4.1 million for the three months ended March 31, 2009 as compared to net cash used in investing activities of \$0.9 million for the three months ended March 31, 2008. The increase is primarily due to a \$4.8 million decrease in our net investment in marketable securities.

Net cash used in financing activities was \$2.6 million for the three months ended March 31, 2009 as compared to net cash used in financing activities of \$2.5 million for the three months ended March 31, 2008. The increase is primarily due to the final \$2.0 million balloon payment to pay off our former mortgage loan, partially offset by a \$2.0 million decrease in repurchases of common stock in 2009.

On January 11, 1999, we entered into a mortgage loan in the amount of \$3.0 million related to our headquarters facility in Middletown, Rhode Island. The loan term was 10 years, with a principal amortization of 20 years at a fixed rate of interest of 7.0%. Land, building and improvements secured the mortgage loan. The monthly mortgage payment was \$23,259, including interest and principal. Due to the difference in the term of the loan and amortization of the principal, a balloon payment of \$2.0 million was due on February 1, 2009. We made the final \$2.0 million balloon payment on the mortgage loan on January 30, 2009. On April 6, 2009, we entered into a new mortgage loan related to the same property in the amount of \$4.0 million. The note term is 10 years and during the term, the interest rate will be a rate per year adjusted periodically based on a defined interest period equal to the BBA Libor Rate plus 2.25 percentage points. Land, building and improvements with an approximate carrying value of \$5.3 million as of March 31, 2009 secure the mortgage loan. The monthly mortgage payment is approximately \$9,400 plus interest beginning on May 1, 2009 and increasing in increments of approximately \$1,000 each year throughout the life of the mortgage. Due to the difference in the term of the note and amortization of the principal, a balloon payment of approximately \$2.6 million plus interest is due on April 1, 2019. The loan contains one financial covenant, a Fixed Charge Coverage Ratio, which applies in the event that our consolidated cash, cash equivalents and marketable securities balance falls below \$25.0 million at any time. We were compliant with this financial covenant as of March 31, 2009.

Currently, we have a revolving loan agreement with a bank that provides for a maximum available credit of \$15.0 million and will expire on December 31, 2011. We pay interest on any outstanding amounts at a rate equal to, at our option, BBA LIBOR Daily Floating Rate plus 1.75%, or the Eurodollar Rate plus 1.75%. The line of credit contains two financial covenants, a Leverage Ratio and a Fixed Charge Ratio, that apply in the event that our consolidated cash, cash equivalents and marketable securities balance falls below \$25.0 million at any time. We were compliant with these two financial covenants throughout the first quarter of 2009. We may terminate the loan agreement prior to its full term without penalty, provided we give 30 days advance written notice to the bank. As of March 31, 2009, no borrowings were outstanding under the facility.

## Table of Contents

On November 26, 2008, our Board of Directors authorized a program to repurchase up to one million shares of our common stock. The share repurchase program is funded using our existing cash, cash equivalents, marketable securities and future cash flows. We repurchased 123,044 shares of our common stock in the three months ended March 31, 2009 under the program at a cost of approximately \$0.6 million.

On June 25, 2008, we entered into a ten-year agreement with ViaSat, Inc. to begin a global expansion of our mini-VSAT Broadband satellite communication service, including an initial purchase of three new regional satellite hubs. On October 3, 2008, we entered into a 5-year agreement with GE International Holdings, Inc. (also known as SAT-GE) to lease satellite capacity in order to provide coverage in the Pacific Ocean. In addition to these agreements, as part of the coverage expansion, we plan to seek to acquire additional satellite capacity from Ku-band satellite operators, expend funds to seek regulatory approvals and permits, develop product enhancements in anticipation of the expansion and hire additional personnel. We anticipate these costs will be funded by cash, cash equivalents and marketable securities on hand, as well as cash flows from operations.

We believe that the \$37.1 million we held in cash, cash equivalents and marketable securities at March 31, 2009, together with our other working capital and cash flows from operations, will be adequate to meet planned operating and capital requirements through the foreseeable future. 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.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market risk exposure is in the area of foreign currency exchange risk. We are exposed to currency exchange rate fluctuations related to our subsidiary operations in Denmark. Certain transactions originating from our Danish subsidiary that are made in the Danish Krone or in Euros are reported in the U.S. dollar, the subsidiary's functional currency. For foreign currency exposures existing at March 31, 2009, a 10% unfavorable movement in the foreign exchange rates for the Krone or the Euro would not expose us to material losses in earnings or cash flows.

From time to time, we purchase foreign currency forward contracts generally having durations of no more than five months. These forward contracts are intended to offset the impact of exchange rate fluctuations on cash flows of our Danish subsidiary. Foreign currency forward contracts are recorded on the balance sheet at fair value until executed. Changes in the fair value are recognized in earnings. As of March 31, 2009, we had no foreign currency forward contracts outstanding.

The primary objective of our investment activities is to preserve principal and maintain liquidity, while at the same time maximize income. We have not entered into any instruments for trading purposes. Some of the securities that we invest in may have market risk. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities that can include commercial paper, United States treasuries, certificates of deposit, investment grade asset-backed corporate securities, money market mutual funds and government agency and non-government debt securities. As of March 31, 2009, a hypothetical 100 basis-point increase in interest rates would result in an immaterial decrease in the fair value of our investments that have maturities of greater than one year. Due to the conservative nature of our investments and the relatively short duration of their maturities, we believe interest rate risk is substantially mitigated. As of March 31, 2009, 69% of the \$33.2 million classified as available-for-sale marketable securities will mature or reset within one year. Accordingly, long-term interest rate risk is not considered material. We do not invest in any financial instruments denominated in foreign currencies.

To the extent that we borrow against our variable-rate credit facility, we will be subject to interest rate risk. There were no borrowings outstanding at March 31, 2009.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are designed to ensure that information required to

---

## [Table of Contents](#)

be disclosed in the reports 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 President, Chief Executive Officer and Chairman of the Board, or CEO, and Chief Financial and Accounting Officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our CEO and CFO, our management has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this interim report. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2009.

### **Evaluation of Changes in Internal Control over Financial Reporting**

Under the supervision and with the participation of our CEO and CFO, our management has evaluated our internal control over financial reporting during the first quarter of 2009. Based on that evaluation, our CEO and CFO did not identify any change in our internal control over financial reporting during the first quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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. We are not a party to any lawsuit or proceeding that, in our opinion, is likely to materially harm our business, results of operations, financial condition or cash flows.

#### 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.*

#### **Our revenues and results of operations have been and may continue to be adversely impacted by worldwide economic turmoil and credit tightening.**

Worldwide economic conditions have recently experienced a significant downturn, including slower economic activity, tightened credit markets, inflation and deflation concerns, decreased consumer confidence, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns. These conditions make it difficult for businesses, governments and consumers to accurately forecast and plan future activities. Governments are experiencing significant declines in tax receipts, which may cause them to curtail spending significantly or reallocate funds away from defense programs. There can be no assurances that government responses to the disruptions in the economy will remedy these problems. As a result of these and other factors, customers could slow or suspend spending on our products and services. We may also be forced to increase our allowance for doubtful accounts, which would have a negative impact on our cash position, liquidity and financial condition. We cannot predict the timing, duration or ultimate impact of this downturn. We expect our business to be adversely impacted by this downturn.

#### **We have a history of variable operating results and may not be profitable in the future.**

Although we generated net income during 2006, 2007, and 2008 and in eighteen of the last twenty-five fiscal quarters, at times our profitability has fluctuated significantly on both a sequential and comparable quarter-to-quarter basis during 2006, 2007 and 2008 and during the first quarter of 2009. As of March 31, 2009, we had an accumulated deficit of \$7.8 million.

#### **Our inventory levels could require an inventory write-down if our inventory reduction and rebalancing efforts are ineffective.**

Our inventory level at December 31, 2008 increased by \$6.2 million, or 66% compared to the prior year and decreased by only \$1.1 million in the first quarter of 2009. The increase was largely the result of two factors. First, commencing during the second quarter of 2008 we began to build up inventory levels of fiber optic gyro materials in anticipation of large orders for remote weapon stations and MK54 torpedo programs. Second, the dramatic weakening of the RV market commencing in the first half of the year, particularly during the second quarter, and the crisis of consumer confidence in the general economy during the second half of the year, caused precipitous declines in demand for our RV products and substantial reductions in demand for our marine consumer products. While shipments of fiber optic gyros for remote weapon stations are now underway, we anticipate that it will take several quarters to reduce other product inventories to more normal levels if the current weak level of demand continues. We currently anticipate receiving a large order for the MK54 torpedo program in June 2009, but there can be no assurance that the order will not be delayed or cancelled. As of March 31, 2009 we had approximately \$0.7 million of inventory, primarily made up of raw materials for military products whose utilization will be dependent upon the receipt of additional sales orders in the future. If we do not receive such sales orders, and we are unable to redeploy the components of such inventory for other product sales, we may be required to record additional write-downs to inventory which would negatively impact both gross margins and net income in the period when such write-downs

## [Table of Contents](#)

are recorded. During the first quarter of 2009, we recorded additional inventory reserves in order to account for the risk of excess inventory due to weak consumer demand. However, if our future inventory reduction and rebalancing efforts are unsuccessful or take an extended period of time, we may have to consider additional, more sizeable inventory reserves or write-downs to address potential excess and obsolete inventory, or our gross margins may fall below historical levels, which would adversely affect our financial results.

### **Our net sales and operating results have declined and could continue to decline due to the current recession or associated declines in consumer spending.**

Our operating performance depends significantly on general economic conditions, which have worsened dramatically in recent periods. Net sales of our mobile communications products are largely generated by discretionary consumer spending, and demand for these products is likely to demonstrate slower growth or decline as a result of worsening regional and global economic conditions. Consumer spending tends to decline during recessionary periods and may decline at other times. For example, sales of our mobile satellite communications products declined approximately 48% from the first quarter of 2008 to the first quarter of 2009 in North America. Consumers may choose not to purchase our mobile communications products due to a perception that they are luxury items. As global and regional economic conditions change, including the general level of interest rates, fluctuating oil prices and demand for durable consumer products, demand for our products could be materially and adversely affected.

### **Adverse economic conditions could result in financial difficulties or bankruptcy for any of our suppliers, which could adversely affect our business and results of operations.**

The significant downturn in worldwide economic conditions and credit tightening could present challenges to our suppliers, which could result in disruptions to our business, increase our costs, delay shipment of our products and impair our ability to generate and recognize revenue. To address their own business challenges, our suppliers may increase prices, reduce the availability of credit, require deposits or advance payments or take other actions that may impose a burden on us. They may also reduce production capacity, slow or delay delivery of products, face challenges meeting our specifications or otherwise fail to meet our requirements. In some cases, our suppliers may face bankruptcy. We may be required to identify, qualify and engage new suppliers, which would require time and the attention of management. Any of these events could impair our ability to deliver our products to customers in a timely and cost-effective manner, cause us to breach our contractual commitments or result in the loss of customers.

### **Shifts in our product sales mix toward our mobile communications products may continue to reduce our overall gross margins.**

Our mobile communications products historically have had lower product gross margins than our guidance and stabilization products. During 2007 and the first three quarters of 2008, sales of our guidance and stabilization products either declined or grew at a substantially lower rate than our overall sales growth. During the fourth quarter of 2008 and the first quarter of 2009, we experienced a significant increase in sales of our guidance and stabilization products, primarily due to an increase in our FOG and to a lesser extent our legacy navigation product sales. A shift in our product sales mix toward mobile communications products would likely cause lower gross margins in the future.

### **Competition may limit our ability to sell our mobile communications products and guidance and stabilization products.**

The mobile communications markets and defense navigation, guidance and stabilization markets in which we participate are very competitive, and we expect this competition to persist and intensify in the future. We may not be able to compete successfully against current and future competitors, which could impair our ability to sell our products. For example, improvements in the performance of lower cost gyros could potentially jeopardize sales of our fiber optic gyros.

In the guidance and stabilization markets, we compete primarily with Honeywell International Inc., Kearfott Guidance & Navigation Corporation, Northrop Grumman Corporation, Smiths Group plc, Tamam, and Fizoptica.

In the market for marine satellite TV equipment, we compete with NaviSystem Marine Electronic Systems Srl, King Controls, Cobham Sea Tel, Inc., Raymarine, and Intellian. In the market for maritime broadband service we compete



## [Table of Contents](#)

with SeaMobile, CapRock, Schlumberger, Thrane & Thrane A/S, Ship Equip, Vizada, Stratos, and Cobham Sea Tel. In the marine market for satellite communications equipment, we compete with Cobham Sea Tel, Inc., Furuno Electric Co., Ltd., Globalstar LP, Iridium Satellite LLC, EMS and Japan Radio Company.

In the market for land mobile satellite TV equipment, we compete with King Controls, MotoSAT, TracStar Systems, Inc., Winegard Company, and Sirius Satellite Radio.

Among the factors that may affect our ability to compete in our markets are the following:

- many of our primary competitors are well-established companies that could have substantially greater financial, managerial, technical, marketing, personnel and other resources than we do;
- product improvements, new product developments or price reductions by competitors may weaken customer acceptance of, and reduce demand for, our products;
- new technology or market trends may disrupt or displace a need for our products; and
- our competitors may have lower production costs than we do, which may enable them to compete more aggressively in offering discounts and other promotions.

**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 24-inch diameter TracPhone V7 antenna and integrated mini-VSAT Broadband service.**

Our TracPhone V7 system offers customers a range of benefits due to its integrated design, hardware costs that are lower than existing maritime VSAT systems, and spread spectrum technology. We anticipate competition from companies like Cobham Sea Tel and MTN, both of which have recently announced their intent to offer similar systems and services. We also compete against companies like Sea Tel that offer established maritime VSAT service using antennas 1 meter in diameter or larger. In addition, other companies could replicate the distinguishing features of our TracPhone V7, which could potentially reduce the appeal of our solution and adversely affect sales. Moreover, consumers may choose other services such as Inmarsat Fleet or FleetBroadband for their global service coverage and potentially lower hardware costs despite higher service costs and slower data rates.

**Our ability to compete in the maritime airtime services market may be impaired if we are unable to expand the coverage of our mini-VSAT Broadband service to new regions.**

The TracPhone V7 and mini-VSAT Broadband service offer a range of benefits to mariners, especially in commercial markets, due to the smaller size antenna and faster, more affordable airtime. However, to support these customers, we need to expand the coverage areas of the mini-VSAT Broadband service, which is currently offered in the north Pacific Ocean, the Americas, Caribbean, North Atlantic, Europe, and the Persian Gulf. If we are unable to reach agreement with third-party satellite providers to support the mini-VSAT Broadband service and its spread spectrum technology or coverage is unavailable, our ability to support vessels and aeronautical applications globally will be at risk and reduce the attractiveness of the product and service to these customers.

**Customers for our fiber optic gyro products and TACNAV include the U.S. military and foreign governments, whose purchasing and delivery schedules and priorities are often unpredictable.**

We sell our fiber optic gyro systems as well as vehicle navigation products to U.S. and foreign military and government customers, either directly or as a subcontractor to other manufacturers. 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:

- changes in modernization plans for military equipment;
- changes in tactical navigation requirements;
- global conflicts impacting troop deployment;
- priorities for current battlefield operations;

## [Table of Contents](#)

- allocation of funding for military programs;
- 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.

These factors can cause substantial fluctuations in sales of fiber optic gyros and TACNAV products from period to period. For example, sales of our TACNAV products declined from 2006 to 2007, but increased from 2007 to 2008 and again from the first quarter of 2008 to the first quarter of 2009. The Obama administration and the new Congress may change defense spending priorities, either in conjunction with the decision to commence troop withdrawals from Iraq or for other reasons. Moreover, government customers and their contractors can generally cancel orders for our products for convenience or decline to exercise previously disclosed contract options. Even under firm orders with government customers, funding must usually be appropriated in the budget process in order for the government to complete the contract. The cancellation of or failure to fund orders for our products could substantially reduce our net sales and results of operations.

**Sales of our fiber optic gyro systems and TACNAV products generally consist of a few large orders, and the delay or cancellation of a single order could substantially reduce our net sales.**

KVH products sold to customers in the defense industry are purchased through orders that can generally range in size from several hundred thousand dollars to more than one million dollars. As a result, the delay or cancellation of a single order could materially reduce our net sales and results of operations. We continue to experience unanticipated delays in defense orders, which make our revenues and operating results less predictable. Because our guidance and stabilization products typically have relatively higher product gross margins than our mobile communications products, the loss of an order for guidance and stabilization products could have a disproportionately adverse effect on our results of operations.

**Only a few customers account for a substantial portion of our guidance and stabilization revenues, and the loss of any of these customers could substantially reduce our net sales.**

We derive a significant portion of our guidance and stabilization revenues from a small number of customers, including the U.S. Government. The loss of business from any of these customers could substantially reduce our net sales and results of operations and could seriously harm our business. Since we are often awarded a contract as a subcontractor to a major defense supplier that is engaged in a competitive bidding process as prime contractor for a major weapons procurement program, our revenues depend significantly on the success of the prime contractors with which we align ourselves.

**The market for mobile TV products for minivans, SUVs and other passenger vehicles has not developed as we originally expected it would, and our business in this market may never be a growth driver.**

The market for live TV in automobiles is still in a relatively early stage of development, and there are many alternative technologies that provide entertainment and communication capabilities to mobile users in automobiles. Historically, sales of the automotive TracVision system have generally been below our expectations.

We believe the success of our low profile TracVision systems will depend upon consumers' assessment of whether these products meet their expectations for performance, quality, price and design. For example, the TracVision A7 is designed for use on open roads in the continental United States where there is a clear view of the transmitting satellite in the southern sky, and it may not perform satisfactorily under other conditions. Among the factors that could affect the success of the low profile TracVision systems are:

- the performance, price and availability of competing or alternative products and technology relative to the automotive TracVision;

## [Table of Contents](#)

- the extent to which customers prefer live TV over recorded media;
- the extent to which customers perceive mobile satellite TV services as a luxury or a preferred convenience;
- the extent to which TracVision gains the acceptance of the automotive OEMs;
- customers' willingness to pay monthly fees for satellite television service in automobiles; and
- the adoption of laws or regulations that restrict or ban television or other video technology in vehicles.

**Our mobile satellite products currently depend on satellite services provided by third parties, and any disruption in those services could adversely affect sales.**

Our satellite products include only the equipment necessary to receive satellite services; we do not broadcast satellite television programming or own the satellites to directly provide two-way satellite communications. We currently offer satellite television products compatible with the DIRECTV and DISH Network services in the United States, the ExpressVu service in Canada, the Sky Mexico service and various other regional services in other parts of the world.

We rely on Inmarsat for satellite communications services for our mini-M, Fleet and FleetBroadband compatible TracPhone products. SES AMERICOM, Eutelsat, and SAT-GE currently provide the satellite network to support the mini-VSAT Broadband service and our TracPhone V7.

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 service provider available in a particular geographic area, and our technology may not be compatible with that of any alternative service provider that may be available. 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 rely upon spread spectrum communications technology developed by ViaSat and fielded by third-party satellite providers to permit two-way broadband Internet via our 24-inch diameter TracPhone V7, and any disruption in the availability of this technology could adversely affect sales.**

Our mini-VSAT Broadband service relies on spread spectrum technology developed with ViaSat, Inc. for use with satellite networks controlled by SES AMERICOM, Eutelsat, and SAT-GE. Our TracPhone V7 two-way broadband satellite terminal combines our stabilized antenna technology with ViaSat's ArcLight spread spectrum mobile broadband technology, along with a new maritime version of ViaSat's ArcLight spread spectrum modem. The ArcLight technology is also integrated within the satellite hubs that support this service. Sales of the TracPhone V7 and our mini-VSAT Broadband service could be disrupted if we fail to receive approval from regulatory authorities to provide our spread spectrum service in various countries our customers operate or if there were issues with the availability of the ArcLight maritime modems.

We no longer have the right to continue offering mini-VSAT Broadband service using SES AMERICOM's satellite network on an exclusive basis in certain geographic markets because annual revenue targets were not reached during the first year; however, the contract is not terminable by either party because revenues in the first year of service did meet certain minimum goals.

Under our agreement with SES AMERICOM, we cannot offer a mini-VSAT Broadband service utilizing technology that competes with SES AMERICOM's technology in areas where they offer service. If another party has or introduces technology superior to that of SES AMERICOM, our sales might suffer, and we would not be able to offer a service using that alternative technology.

**Investment in the global deployment of the mini-VSAT Broadband service will require significant capital investment and initial operating expenses that may not be recouped if we fail to meet the subscriber levels necessary to cover those costs on an ongoing basis.**

It is our intent to invest in and deploy the mini-VSAT Broadband network on a global basis in cooperation with ViaSat under the terms of a 10-year agreement announced in July 2008. As part of the coverage expansion, we agreed to acquire satellite capacity from Ku-band satellite operators as well as purchase at least three new regional satellite hubs from ViaSat. During the deployment period, we expect to see a substantial increase in costs associated with the build out of the mini-VSAT Broadband global infrastructure and support capability. In the short term KVH and ViaSat will be covering the operational cost per transponder access until sufficient subscribers join the network and allow us to reach a breakeven point on our transponder cost, which may not occur. We currently estimate that, on average, it will require at least nine months to reach the breakeven point once the service is turned on for a new coverage region. However, should an insufficient number of subscribers activate within a region, our operations may continue below the breakeven level for a longer duration and adversely affect our operating results and cash levels.

**High fuel prices, high interest rates, tight credit availability and environmental concerns may adversely affect sales of our mobile communications products.**

Factors such as historically high fuel prices, interest rates, tight credit and environmental protection laws could continue to materially and adversely affect sales or use of larger vehicles and vessels for which our mobile satellite communications products are designed. Many customers finance their purchases of these vehicles and vessels, and higher interest rates and/or tightened credit availability would likely reduce demand for both these vehicles and vessels and our mobile communications products. Moreover, in the current credit markets financing for these purchases may be unavailable or more difficult to obtain. The increased cost of operating these vehicles and vessels is adversely affecting and may continue to adversely affect demand for our mobile satellite communications products.

**We may continue to increase the use of international suppliers to source components for our manufacturing operations, which could disrupt our business.**

Although we have historically manufactured and sourced raw materials for the majority of our products in the U.S., in order for us to compete with lower priced competitive products while also improving our profitability, we have found it desirable to source raw materials and manufactured components from foreign countries such as China and Mexico. Our increased 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 affect on our operations and financial performance.

**We have single dedicated manufacturing facilities for each of our mobile communications and guidance and stabilization product categories, and any significant disruption to a facility could impair our ability to deliver our products.**

We currently manufacture all of our mobile communications products at our headquarters in Middletown, Rhode Island, and the majority of our guidance and stabilization 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.

**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

## [Table of Contents](#)

our costs significantly. Suppliers might change or discontinue key components, which could require us to modify our product designs. For example, we have experienced changes in the chemicals used to coat our optical fiber, which changed its characteristics and thereby necessitated design modifications. In general, we do not have written long-term supply agreements with our suppliers but instead purchase components through purchase orders, which expose us to potential price increases and termination of supply without notice or recourse. It is generally not our practice to carry significant inventories of product components, and this could magnify the impact of the loss of a supplier. If we are required to use a new source of materials or components, it could also result in unexpected manufacturing difficulties and could affect product performance and reliability.

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

We market and sell our mobile communications products through an international network of independent retailers, chain stores and distributors, as well as to manufacturers of marine vessels and recreational vehicles. If we are unable to maintain or improve our distribution relationships, it could significantly limit our sales. In addition, our distribution partners may sell products of other companies, including competing products, and are not required to purchase minimum quantities of our products.

### **If we are unable to improve our existing mobile communications and guidance and stabilization products and develop new, innovative products, our sales and market share may decline.**

The markets for mobile communications products and guidance and stabilization products are each characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations and evolving industry standards. If we fail to make innovations in our existing products and reduce the costs of our products, our market share may decline. Products using new technologies, or emerging industry standards, could render our products obsolete. If our competitors successfully introduce new or enhanced products that eliminate technological advantages our products may have in a market or otherwise outperform our products, or are perceived by consumers as doing so, we may be unable to compete successfully in the markets affected by these changes.

### **If we cannot effectively manage changes in our rate of growth, our business may suffer.**

We have previously expanded our operations to pursue existing and potential market opportunities. This growth placed a strain on our personnel, management, financial and other resources. More recently, our revenues have declined in response to economic conditions, weak consumer demand and other factors. If we grow more rapidly than we anticipate and fail to manage that growth properly, we may incur unnecessary expenses, and the efficiency of our operations may decline. If our revenue continues to decline, or fails to resume its growth and if we are unable to adjust our operating expenses on a timely basis in response, our results of operations may be harmed. To manage changes in our rate of growth effectively, we must, among other things:

- match our manufacturing facilities and capacity to demand for our products in a timely manner;
- successfully attract, train, motivate and manage appropriate numbers of employees for manufacturing, sales and customer support activities;
- effectively manage our inventory and working capital; and
- improve the efficiencies within our operating, administrative, financial and accounting systems, and our procedures and controls.

### **We may be unable to hire and retain the skilled personnel we need to expand our operations.**

To meet our growth objectives, we must attract and retain highly skilled technical, operational, managerial and sales and marketing personnel. If we fail to attract and retain 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 face significant competition for these skilled professionals from other companies, research and academic institutions, government entities and other organizations.

**Our success depends on the services of our executive officers and key employees.**

Our future success depends to a significant degree on the skills and efforts of Martin Kits van Heyningen, our co-founder, President, Chief Executive Officer, and Chairman of the Board. If we lost the services of Mr. Kits van Heyningen, our business and operating results could be seriously harmed. We also depend on the ability of our other executive officers and members of senior management to work effectively as a team. None of our senior management or other key personnel is bound by an employment agreement. The loss of one or more of our executive officers or senior management members could impair our ability to manage our business effectively.

**Our international business operations expose us to a number of difficulties in coordinating our activities abroad and in dealing with multiple regulatory environments.**

Historically, sales to customers outside the United States and Canada have accounted for a significant portion of our net sales. We have only one foreign sales office, which is located in Denmark, and we otherwise support our international sales from our operations in the United States. Our limited operations in foreign countries 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 no infrastructure. We are subject to a number of risks associated with our international business activities, which may increase our costs and require significant management attention. These risks include:

- technical challenges we may face in adapting our mobile communication 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;
- restrictions on the sale of certain guidance and stabilization products to foreign military and government customers;
- increased costs of providing customer support in multiple languages;
- 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, which could slow our revenue growth from international sales;
- potentially longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- losses arising from foreign currency exchange rate fluctuations; and
- economic and political instability in some international markets.

**Exports of certain guidance and stabilization products are subject to 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. Our products that have military or strategic applications 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 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.

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

Our ability to compete depends significantly upon our patents, our source code and our other proprietary technology. The steps we have taken to protect our technology may be inadequate to prevent others from using what we regard

## [Table of Contents](#)

as our technology to compete with us. Our patents could be challenged, invalidated or circumvented, and the rights we have under our patents could provide no competitive advantages. Existing trade secrets, copyright and trademark laws offer only limited protection. 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. Furthermore, other companies could independently develop similar or superior technology without violating our intellectual property rights. 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.

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 technology 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 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.

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

We have at times experienced significant fluctuations in our net sales and results of operations from one quarter to the next. Our future net sales and results of operations could 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 mobile communications products and guidance and stabilization products;
- the timing and size of individual orders from military customers;
- the mix of products we sell;
- our ability to manufacture, test and deliver products in a timely and cost-effective manner, including the availability and timely delivery of components and subassemblies from our suppliers;

## [Table of Contents](#)

- our success in winning competitions for orders;
- the timing of new product introductions by us or our competitors;
- expense incurred in pursuing acquisitions, such as during the third quarter of 2006;
- market and competitive pricing pressures;
- general economic climate; and
- seasonality of pleasure boat and recreational vehicle usage.

A large portion of our expenses, including expenses for facilities, equipment, and personnel, are relatively fixed. Accordingly, if our net sales decline or do not grow as much 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.

**Our tax planning strategy involves assumptions that may cause our annual provision for income tax expense or benefit to fluctuate materially. Moreover, our tax planning strategy is based upon our ability to sell our manufacturing and corporate headquarters facility located in Middletown, Rhode Island, as may be necessary.**

We rely upon a tax planning strategy to support the realizability of certain of our deferred tax assets. The strategy represents an action that we ordinarily would not take, but would take, if necessary, to realize an estimated \$3.3 million in U.S. deferred tax assets. The strategy depends upon our ability to sell our Middletown, Rhode Island headquarters facility in order to generate taxable income for the purpose of utilizing our U.S. net operating tax loss carry-forwards before they expire. Our estimate of the taxable income that would result from any such sale, and therefore the supportable deferred tax asset value, is based upon the difference between the property's estimated fair market value and our tax basis. Accordingly, the estimated net realizable value of our deferred tax asset is highly correlated to property values in and around the Middletown, Rhode Island area and therefore subject to changes in property value and or assumptions used in the valuation process. Changes in these property values or assumptions could cause us to revise our estimates and to record significant increases or decreases to our deferred tax assets during the year that could materially affect our results of operations.

**The market price of our common stock may be volatile.**

Our stock price has historically been volatile. From January 1, 2005 to March 31, 2009, the trading price of our common stock ranged from \$14.48 to \$2.81. 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 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.

In addition, the stock market can experience extreme price and volume fluctuations. Major stock market indices experienced dramatic declines in 2008 and in the first quarter of 2009. These fluctuations are often unrelated to the operating performance of particular companies. These 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.



**Acquisitions may disrupt our operations or adversely affect our results.**

We evaluate strategic acquisition opportunities to acquire other businesses as they arise. The expenses we incur evaluating and pursuing acquisitions 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 financial, operational and other benefits we anticipate from any acquisition. Competition for acquisition opportunities could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, our approach to acquisitions may involve a number of special financial and business risks, such as:

- charges related to any potential acquisition from which we may withdraw;
- diversion of our management's time, attention, and resources;
- loss of key acquired personnel;
- increased costs to improve or coordinate managerial, operational, financial, and administrative systems, including compliance with the Sarbanes-Oxley Act of 2002;
- dilutive issuances of equity securities;
- the assumption of legal liabilities; and
- amortization of acquired intangible assets.

**Our charter and by-laws and Delaware law may deter takeovers.**

Our certificate of incorporation, by-laws and Delaware law contain provisions that could have an anti-takeover effect and discourage, delay or prevent a change in control or an acquisition that many stockholders may find attractive. These provisions may also discourage proxy contests and make it more difficult for our stockholders to take some corporate actions, including the election of directors. These provisions relate to:

- the ability of our Board of Directors to issue preferred stock, and determine its terms, without a stockholder vote;
- the classification of our Board of Directors, which effectively prevents stockholders from electing a majority of the directors at any one annual meeting of stockholders;
- the limitation that directors may be removed only for cause by the affirmative vote of the holders of two-thirds of our shares of capital stock entitled to vote;
- the prohibition against stockholder actions by written consent;
- the inability of stockholders to call a special meeting of stockholders; and
- advance notice requirements for stockholder proposals and director nominations.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On November 26, 2008, our Board of Directors authorized a program to repurchase up to one million shares of our common stock. The repurchase program is funded using our existing cash, cash equivalents, marketable securities and future cash flows. Under the repurchase program, at management's discretion, we may repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases depends on availability of shares, price, market conditions, alternative uses of capital, and applicable regulatory requirements. The program may be modified, suspended or terminated at any time without prior notice. The repurchase program has no expiration date. There were no other repurchase programs outstanding during the three months ended March 31, 2009, and no repurchase programs expired during the period.

## Table of Contents

We repurchased 123,044 shares of its common stock in the three-month period ended March 31, 2009 under the program at a cost of approximately \$0.6 million. The following table summarizes our repurchases of our common stock during the three months ended March 31, 2009:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Cost Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs</u>
January 1, 2009 – January 31, 2009	29,500	\$ 4.71	29,500	892,220
February 1, 2009 – February 28, 2009	8,865	5.02	8,865	883,355
March 1, 2009 – March 31, 2009	84,679	4.93	84,679	798,676
Total	<u>123,044</u>	<u>\$ 4.88</u>	<u>123,044</u>	

## ITEM 6. EXHIBITS

Exhibits:

<u>Exhibit No.</u>	<u>Description</u>	<u>Filed with this Form 10-Q</u>	<u>Incorporated by Reference</u>		
			<u>Form</u>	<u>Filing Date</u>	<u>Exhibit No.</u>
3.1	Amended and Restated Certificate of Incorporation		S-1	February 16, 1996	3.3
3.2	Certificate of Amendment of Certificate of Incorporation		S-3	November 26, 2003	4.2
3.3	Amended, Restated and Corrected Bylaws of KVH Industries, Inc.		8-K	July 31, 2007	3
4.1	Specimen certificate for the common stock		S-1/A	March 22, 1996	4.1
*10.21	Second Amended and Restated 2003 Incentive and Nonqualified Stock Option Plan	X			
*10.22	Second Amended and Restated 2006 Stock Incentive Plan	X			
*10.23	Policy Regarding Automatic Grants to Non-Employee Directors	X			
10.24	Loan Agreement dated as of April 6, 2009 between Bank of America, N. A. and KVH Industries, Inc.		8-K	April 8, 2009	10.1
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer				
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer				
32.1	Section 1350 certification of principal executive officer				
32.2	Section 1350 certification of principal financial officer				

\* Management contract or compensatory plan

**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: May 6, 2009

KVH Industries, Inc.

By: /s/ Patrick J. Spratt

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

**Exhibit Index**

<u>Exhibit No.</u>	<u>Description</u>	<u>Filed with this Form 10-Q</u>	<u>Incorporated by Reference</u>		
			<u>Form</u>	<u>Filing Date</u>	<u>Exhibit No.</u>
3.1	Amended and Restated Certificate of Incorporation		S-1	February 16, 1996	3.3
3.2	Certificate of Amendment of Certificate of Incorporation		S-3	November 26, 2003	4.2
3.3	Amended, Restated and Corrected Bylaws of KVH Industries, Inc.		8-K	July 31, 2007	3
4.1	Specimen certificate for the common stock		S-1/A	March 22, 1996	4.1
*10.21	Second Amended and Restated 2003 Incentive and Nonqualified Stock Option Plan	X			
*10.22	Second Amended and Restated 2006 Stock Incentive Plan	X			
*10.23	Policy Regarding Automatic Grants to Non-Employee Directors	X			
10.24	Loan Agreement dated as of April 6, 2009 between Bank of America, N. A. and KVH Industries, Inc.		8-K	April 8, 2009	10.1
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer				
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer				
32.1	Section 1350 certification of principal executive officer				
32.2	Section 1350 certification of principal financial officer				

\* Management contract or compensatory plan

## KVH INDUSTRIES, INC.

**SECOND AMENDED AND RESTATED  
2003 INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN  
(AS AMENDED AND RESTATED ON APRIL 13, 2009)**

**SECTION 1. PURPOSE**

This 2003 Incentive and Nonqualified Stock Option Plan (the "Plan") of KVH Industries, Inc., a Delaware corporation (the "Company"), is designed to provide additional incentive to executives and other key employees of the Company and its subsidiaries and for certain other individuals providing services to or acting as directors of the Company and its subsidiaries. The Company intends that this purpose will be effected by the granting of incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and nonqualified stock options ("Nonqualified Options") under the Plan which afford such executives, key employees, directors and other eligible individuals an opportunity to acquire or increase their proprietary interest in the Company through the acquisition of shares of its Common Stock. The Company intends that Incentive Stock Options issued under the Plan will qualify as "incentive stock options" as defined in Section 422 of the Code and the terms of the Plan shall be interpreted in accordance with this intention. The term "subsidiary" shall have the meaning set forth in Section 424 of the Code.

**SECTION 2. ADMINISTRATION**

**2.1 THE COMMITTEE.** The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company, so long as each member of such committee shall qualify as an Outside Director, as defined below. In the event the Compensation Committee shall include any director who is not an Outside Director, the Outside Directors then serving as members of the Compensation Committee shall constitute the Stock Option Committee of the Board of Directors to administer the Plan (the Compensation Committee or Stock Option Committee, if appointed, being referred to herein as the "Committee"). The Committee shall have at least two members at all times. As used herein, the term "Outside Director" means any director who (i) is not an employee of the Company or of any "affiliated group," as such term is defined in Section 1504(a) of the Code, which includes the Company (an "Affiliate"), (ii) is not a former employee of the Company or any Affiliate who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company's or any Affiliate's taxable year, (iii) has not been an officer of the Company or any Affiliate and (iv) does not receive remuneration from the Company or any Affiliate, either directly or indirectly, in any capacity other than as a director. It is the intention of the Company that the Plan shall be administered by "disinterested persons" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not a disinterested person. Except as specifically reserved to the Company's Board of Directors under the terms of the Plan, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company. Action by the Committee shall require the affirmative vote of a majority of all members thereof.

**2.2 POWERS OF THE COMMITTEE.** Subject to the terms and conditions of the Plan, the Committee shall have the power:

(a) To determine from time to time the persons eligible to receive options and the options to be granted to such persons under the Plan and to prescribe the terms, conditions, restrictions, if any, and provisions (which need not be identical) of each option granted under the Plan to such persons;

(b) To construe and interpret the Plan and options granted thereunder and to establish, amend, and revoke rules and regulations for administration of the Plan. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, or in any option agreement, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and determinations by the Committee in the exercise of this power shall be final and binding upon the Company and optionees;

(c) Except as provided in Section 6.3 hereof, to make, in its sole discretion, changes to any outstanding option granted under the Plan, including: (i) to accelerate the vesting schedule or (ii) to extend the expiration date; and

(d) Generally, to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interests of the Company with respect to the Plan.

### **SECTION 3. STOCK**

**3.1 STOCK TO BE ISSUED.** The stock subject to the options granted under the Plan shall be shares of the Company's authorized but unissued Common Stock, \$.01 par value (the "Common Stock"), or shares of the Company's Common Stock held in treasury. The total number of shares that may be issued pursuant to options granted under the Plan shall not exceed an aggregate of 1,000,000 shares of Common Stock; provided, however, that the class and aggregate number of shares which may be subject to options granted under the Plan shall be subject to adjustment as provided in Section 8 hereof.

**3.2 EXPIRATION, CANCELLATION OR TERMINATION OF OPTION.** Whenever any outstanding option under the Plan expires, is cancelled or is otherwise terminated (other than by exercise), the shares of Common Stock allocable to the unexercised portion of such option may again be the subject of options under the Plan.

**3.3 LIMITATION ON GRANTS.** In no event may any Plan participant be granted options with respect to more than 120,000 shares of Common Stock in any calendar year. The number of shares of Common Stock issuable pursuant to an option granted to a Plan participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year. In addition, if the exercise price of an option is subsequently reduced, the transaction shall be deemed a cancellation of the original option and the grant of a new one so that both transactions shall count toward the maximum shares issuable in the calendar year of each respective transaction.

### **SECTION 4. ELIGIBILITY**

**4.1 PERSONS ELIGIBLE.** Incentive Stock Options under the Plan may be granted only to officers and other employees of the Company or its subsidiaries. Nonqualified Options may be granted to officers or other employees of the Company or its subsidiaries, and to members of the Board and consultants or other persons who render services to the Company (regardless of whether they are also employees).

**4.2 GREATER-THAN-TEN-PERCENT STOCKHOLDERS.** Except as may otherwise be permitted by the Code or other applicable law or regulation, no Incentive Stock Option shall be granted to an individual who, at the time the option is granted, owns (including ownership attributed pursuant to Section 424 of the Code) more than ten percent of the total combined voting power of all classes of stock of the Company or any subsidiary (a “greater-than-ten-percent stockholder”), unless such Incentive Stock Option provides that (i) the purchase price per share shall not be less than one hundred ten percent of the fair market value of the Common Stock at the time such option is granted, and (ii) that such option shall not be exercisable to any extent after the expiration of five years from the date it is granted.

**4.3 MAXIMUM AGGREGATE FAIR MARKET VALUE.** The aggregate fair market value (determined at the time the option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any optionee during any calendar year (under the Plan and any other plans of the Company or its subsidiary for the issuance of incentive stock options) shall not exceed \$100,000 (or such greater amount as may from time to time be permitted with respect to incentive stock options by the Code or any other applicable law or regulation).

## **SECTION 5. TERMINATION OF EMPLOYMENT OR DEATH OF OPTIONEE**

**5.1 TERMINATION OF EMPLOYMENT.** Except as may be otherwise expressly provided herein, options shall terminate on the earlier of:

(a) the date of expiration thereof;

(b) the date of termination of the optionee’s employment with or services to the Company by it for cause (as determined by the Company), or voluntarily by the optionee; or

(c) thirty days after the date of termination of the optionee’s employment with or services to the Company by it without cause; provided, that Nonqualified Options granted to persons who are not employees of the Company need not, unless the Committee determines otherwise, be subject to the provisions set forth in clauses (b) and (c) above.

An employment relationship between the Company and the optionee shall be deemed to exist during any period in which the optionee is employed by the Company or any subsidiary. Whether authorized leave of absence, or absence on military or government service, shall constitute termination of the employment relationship between the Company and the optionee shall be determined by the Committee at the time thereof.

As used herein, “cause” shall mean (x) any material breach by the optionee of any agreement to which the optionee and the Company are both parties, (y) any act or omission to act by the optionee which may have a material and adverse effect on the Company’s business or on the optionee’s ability to perform services for the Company, including, without limitation, the commission of any crime (other than ordinary traffic violations), or (z) any material misconduct or material neglect of duties by the optionee in connection with the business or affairs of the Company or any affiliate of the Company.

**5.2 DEATH OR PERMANENT DISABILITY OF OPTIONEE.** In the event of the death or permanent and total disability of the holder of an option prior to termination of the optionee’s employment with or services to the Company and before the date of expiration of such option, such option shall terminate on the earlier of such date of expiration or one year following the date of such death or disability. After the death of the optionee, his/her executors, administrators or any person or persons to whom his/her option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to such termination, to exercise the option to the extent the optionee

was entitled to exercise such option immediately prior to his/her death. An optionee is permanently and totally disabled if he/she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to last for a continuous period of not less than twelve months; permanent and total disability shall be determined in accordance with Section 22(e)(3) of the Code and the regulations issued thereunder.

## **SECTION 6. TERMS OF THE OPTION AGREEMENTS**

Each option agreement shall be in writing and shall contain such terms, conditions, restrictions, if any, and provisions as the Committee shall from time to time deem appropriate. Such provisions or conditions may include without limitation restrictions on transfer, repurchase rights, or such other provisions as shall be determined by the Committee; provided, that such additional provisions shall not be inconsistent with any other term or condition of the Plan and such additional provisions shall not cause any Incentive Stock Option granted under the Plan to fail to qualify as an incentive option within the meaning of Section 422 of the Code. Option agreements need not be identical, but each option agreement by appropriate language shall include the substance of all of the following provisions:

**6.1 EXPIRATION OF OPTION.** Notwithstanding any other provision of the Plan or of any option agreement, each option shall expire on the date specified in the option agreement, which date shall not, in the case of an Incentive Stock Option, be later than the tenth anniversary (fifth anniversary in the case of a greater-than-ten-percent stockholder) of the date on which the option was granted, or as specified in Section 5 hereof.

**6.2 EXERCISE.** Subject to Section 7.3 hereof, each option may be exercised, so long as it is valid and outstanding, from time to time in part or as a whole, subject to any limitations with respect to the number of shares for which the option may be exercised at a particular time and to such other conditions as the Committee in its discretion may specify upon granting the option.

**6.3 PURCHASE PRICE.** The purchase price per share under each option shall be determined by the Committee at the time the option is granted; provided, however, (i) that the option price of any Incentive Stock Option shall not, unless otherwise permitted by the Code or other applicable law or regulation, be less than the fair market value of the Common Stock on the date the option is granted (110% of the fair market value in the case of a greater-than-ten-percent stockholder), and (ii) that, unless approved by the holders of a majority of the shares present and entitled to vote at a duly convened meeting of the Company's stockholders, the option price of any stock option shall not be less than the fair market value of the Common Stock on the date the option is granted and the exercise price of any outstanding stock option grant under any existing or future stock option plan may not be reduced. Subsection 6.3(ii) hereof may not be amended or repealed without the affirmative vote of the holders of a majority of the shares of the Company present and entitled to vote at a duly convened meeting of the Company's stockholders. For the purpose of the Plan the fair market value of the Common Stock shall be the closing price per share on the date of grant of the option as reported by a nationally recognized stock exchange, or, if the Common Stock is not listed on such an exchange, as reported by the National Association of Securities Dealers Automated Quotation System, Inc. ("NASDAQ"), or, if the Common Stock is not quoted on NASDAQ, the fair market value as determined by the Committee.

**6.4 TRANSFERABILITY OF OPTIONS.** Options shall not be transferable by the optionee otherwise than by will or under the laws of descent and distribution, and shall be exercisable, during his or her lifetime, only by him or her.

**6.5 RIGHTS OF OPTIONEES.** No optionee shall be deemed for any purpose to be the owner of any shares of Common Stock subject to any option unless and until the option shall have been



exercised pursuant to the terms thereof, and the Company shall have issued and delivered the shares to the optionee.

**6.6 REPURCHASE RIGHT.** The Committee may in its discretion provide upon the grant of any option hereunder that the Company shall have an option to repurchase upon such terms and conditions as determined by the Committee all or any number of shares purchased upon exercise of such option. The repurchase price per share payable by the Company shall be such amount or be determined by such formula as is fixed by the Committee at the time the option for the shares subject to repurchase is granted. In the event the Committee shall grant options subject to the Company's repurchase option, the certificates, if any, representing the shares purchased pursuant to such option shall carry a legend satisfactory to counsel for the Company referring to the Company's repurchase option.

**6.7 "LOCKUP" AGREEMENT.** The Committee may in its discretion specify upon granting an option that the optionee shall agree for a period of time (not to exceed 180 days) from the effective date of any registration of securities of the Company (upon request of the Company or the underwriters managing any underwritten offering of the Company's securities), not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares issued pursuant to the exercise of such option, without the prior written consent of the Company or such underwriters, as the case may be.

## **SECTION 7. METHOD OF EXERCISE; PAYMENT OF PURCHASE PRICE**

**7.1 METHOD OF EXERCISE.** Any option granted under the Plan may be exercised by the optionee by delivering to the Company on any business day a written notice specifying the number of shares of Common Stock the optionee then desires to purchase and specifying the address to which the certificates (if any) for, or other evidence of, such shares are to be mailed (the "Notice"), accompanied by payment for such shares.

**7.2 PAYMENT OF PURCHASE PRICE.** Payment for the shares of Common Stock purchased pursuant to the exercise of an option shall be made by:

(a) cash in an amount, or a check, bank draft or postal or express money order payable in an amount, equal to the aggregate exercise price for the number of shares specified in the Notice;

(b) by delivery to the Company of shares of Common Stock having a fair market value (as defined for purposes of Section 6.3 hereof) equal in amount to the aggregate exercise price of the Options being exercised; provided, however, that an optionholder may not utilize this method of payment unless the following conditions are met:

- (1) at the time the optionholder submits the outstanding shares of Stock as payment of the aggregate exercise price of the Options being exercised, the optionholder shall have provided the Company with a letter stating that (a) the optionholder does not know of any material, non-public information concerning the Company, and (b) the Company is not currently in a "blackout" period; and
- (2) the transaction shall have been approved by the President of the Company or its corporate counsel on the date on which the outstanding shares of Stock are tendered as payment of the aggregate exercise price of the Options being exercised.

(c) with the consent of the Committee, such other consideration that is acceptable to the Committee and that has a fair market value, as determined by the Committee, equal to such aggregate exercise price, including any broker-directed cashless exercise/resale procedure adopted by the Committee; or

(d) with the consent of the Committee, any combination of the foregoing.

As promptly as practicable after receipt of the Notice and accompanying payment, the Company shall deliver to the optionee the number of shares with respect to which such option has been so exercised, issued in the optionee's name; provided, however, that such delivery shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have either (i) deposited stock certificates representing such shares in the United States mail, addressed to the optionee, at the address specified in the Notice, or (ii) placed such shares in electronic form in an account in the optionee's name.

**7.3 SPECIAL LIMITS AFFECTING SECTION 16(B) OPTION HOLDERS.** Shares issuable upon exercise of options granted to a person who in the opinion of the Committee may be deemed to be a director or officer of the Company within the meaning of Section 16(b) of the Exchange Act and the rules and regulations thereunder shall not be sold or disposed of until after the expiration of six months following the date of grant.

## **SECTION 8. CHANGES IN COMPANY'S CAPITAL STRUCTURE**

**8.1 RIGHTS OF COMPANY.** The existence of outstanding options shall not affect in any way the right or power of the Company or its stockholders to make or authorize, without limitation, any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of Common Stock, or any issue of bonds, debentures, preferred or prior preference stock or other capital stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

**8.2 RECAPITALIZATION, STOCK SPLITS AND DIVIDENDS.** If the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of the Common Stock outstanding, in any such case without receiving compensation therefor in money, services or property, then (i) the number, class, and price per share of shares of stock subject to outstanding options hereunder shall be appropriately adjusted in such a manner as to entitle an optionee to receive upon exercise of an option, for the same aggregate cash consideration, the same total number and class of shares as he or she would have received as a result of the event requiring the adjustment had he or she exercised his or her option in full immediately prior to such event; (ii) the number and class of shares with respect to which options may be granted under the Plan; and (iii) the number and class of shares set forth in Sections 3.3 shall be adjusted by substituting for the total number of shares of Common Stock then reserved for issuance under the Plan that number and class of shares of stock that the owner of an equal number of outstanding shares of Common Stock would own as the result of the event requiring the adjustment.

**8.3 MERGER WITHOUT CHANGE OF CONTROL.** After a merger of one or more corporations into the Company, or after a consolidation of the Company and one or more corporations in which (i) the Company shall be the surviving corporation, and (ii) the stockholders of the Company immediately prior to such merger or consolidation own after such merger or consolidation shares representing at least fifty percent of the voting power of the Company, each holder of an outstanding

option shall, at no additional cost, be entitled upon exercise of such option to receive in lieu of the number of shares as to which such option shall then be so exercisable, the number and class of shares of stock or other securities to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of a number of shares of Common Stock equal to the number of shares for which such option was exercisable.

**8.4 SALE OR MERGER WITH CHANGE OF CONTROL.** If the Company is merged into or consolidated with another corporation under circumstances where the Company is not the surviving corporation, or if there is a merger or consolidation where the Company is the surviving corporation but the stockholders of the Company immediately prior to such merger or consolidation do not own after such merger or consolidation shares representing at least fifty percent of the voting power of the Company, or if the Company is liquidated, or sells or otherwise disposes of substantially all of its assets to another corporation while unexercised options remain outstanding under the Plan, (i) subject to the provisions of clause (iii) below, after the effective date of such merger, consolidation, liquidation, sale or disposition, as the case may be, each holder of an outstanding option shall be entitled, upon exercise of such option, to receive, in lieu of shares of Common Stock, shares of such stock or other securities, cash or property as the holders of shares of Common Stock received pursuant to the terms of the merger, consolidation, liquidation, sale or disposition; (ii) the Committee may accelerate the time for exercise of all unexercised and unexpired options to and after a date prior to the effective date of such merger, consolidation, liquidation, sale or disposition, as the case may be, specified by the Committee; or (iii) all outstanding options may be cancelled by the Committee as of the effective date of any such merger, consolidation, liquidation, sale or disposition provided that (x) notice of such cancellation shall be given to each holder of an option and (y) each holder of an option shall have the right to exercise such option to the extent that the same is then exercisable or, if the Committee shall have accelerated the time for exercise of all unexercised and unexpired options, in full during the 30-day period preceding the effective date of such merger, consolidation, liquidation, sale or disposition.

**8.5 ADJUSTMENTS TO COMMON STOCK SUBJECT TO OPTIONS.** Except as hereinbefore expressly provided, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock then subject to outstanding options.

**8.6 MISCELLANEOUS.** Adjustments under this Section 8 shall be determined by the Committee, and such determinations shall be conclusive. No fractional shares of Common Stock shall be issued under the Plan on account of any adjustment specified above.

## **SECTION 9. GENERAL RESTRICTIONS**

**9.1 INVESTMENT REPRESENTATIONS.** The Company may require any person to whom an option is granted, as a condition of exercising such option, to give written assurances in substance and form satisfactory to the Company to the effect that such person is acquiring the Common Stock subject to the option for his or her own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

**9.2 COMPLIANCE WITH SECURITIES LAWS.** The Company shall not be required to sell or issue any shares under any option if the issuance of such shares shall constitute a violation by the

optionee or by the Company of any provisions of any law or regulation of any governmental authority. In addition, in connection with the Securities Act of 1933, as now in effect or hereafter amended (the "Act"), upon exercise of any option, the Company shall not be required to issue such shares unless the Committee has received evidence satisfactory to it to the effect that the holder of such option will not transfer such shares except pursuant to a registration statement in effect under such Act or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that such registration is not required. Any determination in this connection by the Committee shall be final, binding and conclusive. In the event the shares issuable on exercise of an option are not registered under the Act, the Company may imprint upon any certificate representing shares so issued the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Act and with applicable in this connection by the Committee shall be final, binding and conclusive. In the event the shares issuable on exercise of an option are not registered under the Act, the Company may imprint upon any certificate representing shares so issued the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Act and with applicable state securities laws:

"The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 or under the securities laws of any State and may not be sold or transferred except upon such registration or upon receipt by the Corporation of an opinion of counsel satisfactory to the Corporation, in form and substance for such sale or transfer."

The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Act; and in the event any shares are so registered the Company may remove any legend on certificates representing such shares. The Company shall not be obligated to take any other affirmative action in order to cause the exercise of an option or the issuance of shares pursuant thereto to comply with any law or regulation of any governmental authority.

**9.3 EMPLOYMENT OBLIGATION.** The granting of any option shall not impose upon the Company any obligation to employ or continue to employ any optionee; and the right of the Company to terminate the employment of any officer or other employee shall not be diminished or affected by reason of the fact that an option has been granted to him or her.

## **SECTION 10. WITHHOLDING TAXES**

**10.1 RIGHTS OF COMPANY.** The Company may require an employee exercising a Nonqualified Option, or disposing of shares of Common Stock acquired pursuant to the exercise of an Incentive Option in a disqualifying disposition (as defined in Section 421(b) of the Code), to reimburse the Company for any taxes required by any government to be withheld or otherwise deducted and paid by the Company in respect of the issuance or disposition of such shares. In lieu thereof, the Company shall have the right to withhold the amount of such taxes from any other sums due or to become due from the Company to the employee upon such terms and conditions as the Company may prescribe. The Company may, in its discretion, hold the shares to which such employee is otherwise entitled upon the exercise of an Option as security for the payment of any such withholding tax liability, until cash sufficient to pay that liability has been received or accumulated.

**10.2 PAYMENT IN SHARES.** An employee may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Common Stock to be issued pursuant to the exercise of a Nonqualified Option a number of shares with an aggregate fair market value (as defined in Section 6.3 hereof determined as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such exercise, or (ii) transferring

to the Company shares of Common Stock owned by the employee with an aggregate fair market value (as defined in Section 6.3 hereof determined as of the date the withholding is effected) that would satisfy the withholding amount due. With respect to any employee who is subject to Section 16 of the Exchange Act, the following additional restrictions shall apply:

- (a) the election to satisfy tax withholding obligations relating to an option exercise in the manner permitted by this Section 10.2 shall be made either (1) during the period beginning on the third business day following the date of release of quarterly or annual summary statements of sales and earnings of the Company and ending on the twelfth business day following such date, or (2) at least six (6) months prior to the date of exercise of the option;
- (b) such election shall be subject to the consent or approval of the Committee; and
- (d) the Common Stock withheld to satisfy tax withholding, if granted at the discretion of the Committee, must pertain to an option which has been held by the employee for at least six (6) months from the date of grant of the option.

**10.3 NOTICE OF DISQUALIFYING DISPOSITION.** Each holder of an Incentive Option shall agree to notify the Company in writing immediately after making a disqualifying disposition (as defined in Section 421(b) of the Code) of any Common Stock purchased upon exercise of the Incentive Option.

## **SECTION 11. AMENDMENT OR TERMINATION OF PLAN**

**11.1 AMENDMENT.** The Board may terminate the Plan and may amend the Plan at any time, and from time to time, subject to the limitation that, except as otherwise provided herein, no amendment shall be effective unless approved by the stockholders of the Company in accordance with applicable law and regulations, at an annual or special meeting held within 12 months before or after the date of adoption of such amendment, in any instance in which such amendment would: (i) increase the number of shares of Common Stock that may be issued under, or as to which Options may be granted pursuant to, the Plan; or (ii) change in substance the provisions of Section 4 hereof relating to eligibility to participate in the Plan. In addition, the provisions of Subsection 6.3(ii) may not be amended or repealed without the affirmative vote of the holders of a majority of the shares of Common Stock present and entitled to vote at a duly convened meeting of the Company's stockholders. Without limiting the generality of the foregoing, the Board is expressly authorized to amend the Plan, at any time and from time to time, to conform it to the provisions of Rule 16b-3 under the Exchange Act, as that Rule may be amended from time to time.

Except as otherwise provided herein, the rights and obligations under any option granted before amendment of this Plan or any unexercised portion of such option shall not be adversely affected by amendment of this Plan or such option without the consent of the holder of such option.

**11.2 TERMINATION.** This Plan shall terminate as of the tenth anniversary of its effective date. The Board may terminate this Plan at any earlier time for any or no reason. No Option may be granted after the Plan has been terminated. No Option granted while this Plan is in effect shall be altered or impaired by termination of this Plan, except upon the consent of the holder of such Option. The power of the Committee to construe and interpret this Plan and the Options granted prior to the termination of this Plan shall continue after such termination.

## **SECTION 12. NONEXCLUSIVITY OF PLAN**

Neither the adoption of this Plan by the Board of Directors nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including the granting of stock options otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

## **SECTION 13. EFFECTIVE DATE AND DURATION OF PLAN**

This Plan shall become effective upon its adoption by the Board, provided, that the stockholders of the Company shall have approved this Plan within twelve months prior to or following the adoption of this Plan by the Board. Subject to the foregoing, options may be granted under the Plan at any time subsequent to its effective date; provided, however, that (a) no such option shall be exercised or exercisable unless the stockholders of the Company shall have approved the Plan within twelve months prior to or following the adoption of this Plan by the Board, and (b) all options issued prior to the date of such stockholders' approval shall contain a reference to such condition. No option may be granted under the Plan after the tenth anniversary of the effective date. The Plan shall terminate (i) when the total amount of the Common Stock with respect to which options may be granted shall have been issued upon the exercise of options or (ii) by action of the Board of Directors pursuant to Section 11 hereof, whichever shall first occur.

## **SECTION 14. PROVISIONS OF GENERAL APPLICATION**

**14.1 SEVERABILITY.** The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, each of which shall remain in full force and effect.

**14.2 CONSTRUCTION.** The headings in this Plan are included for convenience only and shall not in any way effect the meaning or interpretation of this Plan. Any term defined in the singular shall include the plural, and vice versa. The words "herein," "hereof" and "hereunder" refer to this Plan as a whole and not to any particular part of this Plan. The word "including" as used herein shall not be construed so as to exclude any other thing not referred to or described.

**14.3 FURTHER ASSURANCES.** The Company and any holder of an option shall from time to time execute and deliver any and all further instruments, documents and agreements and do such other and further acts and things as may be required or useful to carry out the intent and purpose of this Plan and such option and to assure to the Company and such option holder the benefits contemplated by this Plan; PROVIDED, HOWEVER, that neither the Company nor any option holder shall in any event be required to take any action inconsistent with the provisions of this Plan.

**14.4 GOVERNING LAW.** This Plan and each Option shall be governed by the laws of the State of Delaware.

## KVH INDUSTRIES, INC.

**SECOND AMENDED AND RESTATED  
2006 STOCK INCENTIVE PLAN  
(AS AMENDED AND RESTATED ON APRIL 13, 2009)**

**SECTION 1. General Purpose of the Plan; Definitions.**

The purpose of this KVH Industries, Inc. 2006 Stock Incentive Plan (the "Plan") is to encourage and enable officers and employees of, and other persons providing services to, KVH Industries, Inc. (the "Company") and its Affiliates to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its shareholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Affiliate" means a parent corporation, if any, and each subsidiary corporation of the Company, as those terms are defined in Section 424 of the Code.

"Award" or "Awards", except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Statutory Stock Options, Restricted Stock Awards and Restricted Stock Units and Other Stock Unit Awards. Awards shall be evidenced by a written agreement (which may be in electronic form and may be electronically acknowledged and accepted by the recipient) containing such terms and conditions not inconsistent with the provisions of this Plan as the Committee shall determine.

"Board" means the Board of Directors of the Company.

"Cause" shall mean, with respect to any Award holder, a determination by the Company (including the Board) or any Affiliate that the holder's employment or other relationship with the Company or any such Affiliate should be terminated as a result of (i) a material breach by the Award holder of any agreement to which the Award holder and the Company (or any such Affiliate) are parties, (ii) any act (other than retirement) or omission to act by the Award holder that may have a material and adverse effect on the business of the Company, such Affiliate or any other Affiliate or on the Award holder's ability to perform services for the Company or any such Affiliate, including, without limitation, the proven or admitted commission of any crime (other than an ordinary traffic violation), or (iii) any material misconduct or material neglect of duties by the Award holder in connection with the business or affairs of the Company or any such Affiliate.

"Change of Control" shall have the meaning set forth in Section 14.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Committee" shall have the meaning set forth in Section 2.

"Disability" means disability as set forth in Section 22(e)(3) of the Code.

“Effective Date” means the date on which the Plan is approved by the Board of Directors as set forth in Section 16.

“Eligible Person” shall have the meaning set forth in Section 4.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Fair Market Value” on any given date means the closing price per share of the Stock on such date as reported by such registered national securities exchange on which the Stock is listed, or, if the Stock is not listed on such an exchange, as quoted on the National Association of Securities Dealers Automated Quotation System, Inc. (“NASDAQ”); provided, that, if there is no trading on such date, Fair Market Value shall be deemed to be the closing price per share on the last preceding date on which the Stock was traded. If the Stock is not listed on any registered national securities exchange or quoted on NASDAQ, the Fair Market Value of the Stock shall be determined in good faith by the Committee.

“Incentive Stock Option” means any Stock Option designated and qualified as an “incentive stock option” as defined in Section 422 of the Code.

“Non-Employee Director” means any director who: (i) is not currently an officer of the Company or an Affiliate, or otherwise currently employed by the Company or an Affiliate, (ii) does not receive compensation, either directly or indirectly, from the Company or an Affiliate, for services rendered as a consultant or in any capacity other than as a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Rule 404(a) of Regulation S-K promulgated by the SEC, (iii) does not possess an interest in any other transaction for which disclosure would be required pursuant to Rule 404(a) of Regulation S-K, and (iv) is not engaged in a business relationship for which disclosure would be required pursuant to Rule 404(b) of Regulation S-K.

“Non-Statutory Stock Option” means any Stock Option that is not an Incentive Stock Option.

“Normal Retirement” means retirement in good standing from active employment with the Company and its Affiliates in accordance with the retirement policies of the Company and its Affiliates then in effect.

“Option” or “Stock Option” means any option to purchase shares of Stock granted pursuant to Section 5.

“Other Stock Unit Award” means an Award granted pursuant to Section 8.

“Outside Director” means any director who (i) is not an employee of the Company or of any “affiliated group,” as such term is defined in Section 1504(a) of the Code, which includes the Company (an “Affiliated Group Member”), (ii) is not a former employee of the Company or any Affiliated Group Member who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company’s or any Affiliated Group Member’s taxable year, (iii) has not been an officer of the Company or any Affiliated Group Member and (iv) does not receive remuneration from the Company or any Affiliated Group Member, either directly or indirectly, in any capacity other than as a director. “Outside Director” shall be determined in accordance with Section 162(m) of the Code and the Treasury regulations issued thereunder.



“Restricted Stock Award” means an Award granted pursuant to Section 7A.

“Restricted Stock Unit” means an Award granted pursuant to Section 7B.

“SEC” means the Securities and Exchange Commission or any successor authority.

“Stock” means the common stock, \$0.01 par value per share, of the Company, subject to adjustments pursuant to Section 3.

**SECTION 2. Administration of Plan; Committee Authority to Select Participants and Determine Awards.**

(a) *Committee.* It is intended that the Plan shall be administered by the Compensation Committee of the Board (the “Committee”), consisting of not less than two (2) persons each of whom qualifies as an Outside Director and a Non-Employee Director, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not an Outside Director or a Non-Employee Director. Except as specifically reserved to the Board under the terms of the Plan, and subject to any limitations set forth in the charter of the Committee, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company.

(b) *Powers of Committee.* The Committee shall have the power and authority to grant and modify Awards consistent with the terms of the Plan, including the power and authority:

- (i) to select the persons to whom Awards may from time to time be granted;
- (ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Statutory Stock Options, Restricted Stock Awards, Restricted Stock Units, Other Stock Unit Awards, or any combination of the foregoing, granted to any one or more participants;
- (iii) to determine the number of shares to be covered by any Award;
- (iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards; provided, however, that no such action shall adversely affect rights under any outstanding Award without the participant’s consent;
- (v) to accelerate the exercisability or vesting of all or any portion of any Award;
- (vi) to extend the period in which any outstanding Stock Option may be exercised; and
- (vii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable;

to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants. No member or former member of the Committee or the Board shall be liable for any action or determination made in good faith with respect to this Plan.

### **SECTION 3. Shares Issuable under the Plan; Mergers; Substitution.**

(a) *Shares Issuable.* The maximum number of shares of Stock which may be issued in respect of Awards granted under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in this Section 3, shall be 2,000,000 shares. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise) shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

(b) *Share Counting Formula.* Solely for the purpose of applying the limitation in Section 3(a), and not for purposes of Section 3(c) below, each Option granted under this Plan shall reduce the number of shares available for grant by one share for every one share granted and each grant of an Award other than an Option under this Plan shall reduce the number of shares available for grant by two shares for every one share granted.

(c) *Limitation on Awards.* In no event may any Plan participant be granted Awards with respect to more than 120,000 shares of Stock in any calendar year. The number of shares of Stock relating to an Award granted to a Plan participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year. In addition, if the exercise price of an Award is subsequently reduced, the transaction shall be deemed a cancellation of the original Award and the grant of a new one so that both transactions shall count toward the maximum shares issuable in the calendar year of each respective transaction.

(d) *Stock Dividends, Mergers, etc.* In the event that after approval of the Plan by the stockholders of the Company in accordance with Section 16, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities with respect to which Awards may thereafter be granted (including without limitation the limitations set forth in Sections 3(a) and (b) above), (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 14.

(e) *Substitute Awards.* The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or an Affiliate as the result of a merger or consolidation of the employing corporation with the Company or an Affiliate or the acquisition by the Company or an Affiliate of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

#### **SECTION 4. Eligibility.**

Awards may be granted to officers, directors and employees of, and consultants and advisers to, the Company or its Affiliates ("Eligible Persons").

#### **SECTION 5. Stock Options.**

The Committee may grant to Eligible Persons options to purchase Stock.

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options (subject to compliance with applicable law) or Non-Statutory Stock Options. Unless otherwise so designated, an Option shall be a Non-Statutory Stock Option. To the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a Non-Statutory Stock Option.

No Incentive Stock Option shall be granted under the Plan after the tenth anniversary of the date of adoption of the Plan by the Board.

The Committee in its discretion may determine the effective date of Stock Options, provided, however, that grants of Incentive Stock Options shall be made only to persons who are, on the effective date of the grant, employees of the Company or an Affiliate. Stock Options granted pursuant to this Section 5 shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable.

(a) *Exercise Price.* The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Committee at the time of grant but shall be not less than one hundred percent (100%) of Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any Affiliate and an Incentive Stock Option is granted to such employee, the option price shall be not less than one hundred ten percent (110%) of Fair Market Value on the date of grant.

(b) *Option Term.* The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than seven (7) years after the date the Option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any Affiliate and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five (5) years from the date of grant.

(c) *Exercisability; Rights of a Shareholder.* Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(d) *Method of Exercise.* Stock Options may be exercised in whole or in part, by delivering written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by delivery of cash or bank check or other instrument acceptable to the Committee in an amount equal to the exercise price of such Options, or, to the extent provided in the applicable Option Agreement, by one or more of the following methods:

(i) by delivery to the Company of shares of Stock having a fair market value equal in amount to the aggregate exercise price of the Options being exercised; provided, however, that an optionholder may not utilize this method of payment unless the following conditions are met:

(1) at the time the optionholder submits the outstanding shares of Stock as payment of the aggregate exercise price of the Options being exercised, the optionholder shall have provided the Company with a letter stating that (a) the optionholder does not know of any material, non-public information concerning the Company, and (b) the Company is not currently in a “blackout” period; and

(2) the transaction shall have been approved by the President of the Company or its corporate counsel on the date on which the outstanding shares of Stock are tendered as payment of the aggregate exercise price of the Options being exercised.

(ii) if the class of Stock is registered under the Exchange Act at such time, by delivery to the Company of a properly executed exercise notice along with irrevocable instructions to a broker to deliver promptly to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event that the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure (including, in the case of an optionee who is an executive officer of the Company, such procedures and agreements as the Committee deems appropriate in order to avoid any extension of credit in the form of a personal loan to such officer). The Company need not act upon such exercise notice until the Company receives full payment of the exercise price;

(iii) by reducing the number of Option shares otherwise issuable to the optionee upon exercise of the Option by a number of shares of Stock having a fair market value equal to such aggregate exercise price of the Options being exercised; or

(iv) by any combination of such methods of payment.

The delivery of shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or imposed by applicable law.

(e) *Non-transferability of Options.* Except as the Committee may provide with respect to a Non-Statutory Stock Option, no Stock Option shall be transferable other than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(f) *Annual Limit on Incentive Stock Options.* To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its Affiliates become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000.

(g) *Special Limits Affecting Section 16(b) Option Holders.* Shares issuable upon exercise of Options granted to a person who in the opinion of the Committee may be deemed to be a director or officer of the Company within the meaning of Section 16(b) of the Exchange Act and the rules and regulations thereunder shall not be sold or disposed of until after the expiration of six months following the date of grant.

## **SECTION 6. [Reserved].**

### **SECTION 7A. Restricted Stock Awards.**

(a) *Nature of Restricted Stock Award.* The Committee in its discretion may grant Restricted Stock Awards to any Eligible Person, entitling the recipient to acquire, for such purchase price, if any, as may be determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Restricted Stock"), including continued employment and/or achievement of pre-established performance goals and objectives.

(b) *Acceptance of Award.* A participant who is granted Restricted Stock shall have no rights with respect to such Award unless the participant shall have accepted the Award within thirty (30) days (or such shorter date as the Committee may specify) following the award date by making payment to the Company of the specified purchase price, if any, of the shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions applicable to the Restricted Stock in such form as the Committee shall determine.

(c) *Rights as a Shareholder.* Upon complying with Section 7A(b) above, a participant shall have all the rights of a shareholder with respect to the Restricted Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture

rights described in this Section 7A and subject to such other conditions contained in the written instrument evidencing the Restricted Stock. Unless the Committee shall otherwise determine, certificates, if any, evidencing shares of Restricted Stock shall remain in the possession of the Company until such shares are vested as provided in Section 7A(e) below.

(d) *Restrictions*. Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Affiliates for any reason (including death, Disability, Normal Retirement and for Cause), any shares of Restricted Stock which have not then vested shall automatically be forfeited to the Company.

(e) *Vesting of Restricted Stock*. The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." The Committee at any time may accelerate such date or dates and otherwise waive or, subject to Section 14, amend any conditions of the Award.

(f) *Waiver, Deferral and Reinvestment of Dividends*. The written instrument evidencing the Restricted Stock may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

#### **SECTION 7B. Restricted Stock Units.**

(a) *Nature of Restricted Stock Unit*. The Committee in its discretion may grant Restricted Stock Units to any Eligible Person, entitling the recipient to acquire Restricted Stock Units ("RSU") with a value equivalent to a share of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant, including continued employment and/or achievement of pre-established performance goals and objectives.

(b) *Acceptance of Award*. A participant who is granted a RSU shall have no rights with respect to such Award unless the participant shall have accepted the Award within thirty (30) days (or such shorter date as the Committee may specify) following the award by executing and delivering to the Company a written instrument that sets forth the terms and conditions applicable to the RSU in such form as the Committee shall determine.

(c) *Rights as a Shareholder*. The holder of a RSU shall have no rights as a shareholder.

(d) *Restrictions*. RSUs may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Affiliates for any reason (including death, Disability, Normal Retirement and for Cause), any RSUs which have not then vested shall automatically be forfeited to the Company.

(e) *Vesting of RSUs*. The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions

on which the vesting of the RSU shall be conditioned. No later than 30 days following such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the Company shall deliver to the participant one share of Stock for each vested RSU.

(f) *Waiver, Deferral and Reinvestment of Dividends.* No dividends shall be paid or accrue on any RSU.

#### **SECTION 8. Other Stock-Based Awards.**

Other Awards of shares of Stock, and other Awards that are valued in whole or in part by reference to, or are otherwise based on, shares of Stock or other property, may be granted hereunder to participants (“Other Stock Unit Awards”), including without limitation Awards entitling recipients to receive shares of Stock to be delivered in the future. Other Stock Unit Awards may be paid in shares of Stock or cash, as the Board shall determine. Subject to the provisions of the Plan, the Board shall determine the conditions of each Other Stock Unit Award, including any purchase price applicable thereto.

#### **SECTION 9. Termination of Stock Options.**

(a) *Incentive Stock Options:*

(i) *Termination by Death.* If any participant’s employment by the Company and its Affiliates terminates by reason of death, any Incentive Stock Option owned by such participant may thereafter be exercised to the extent exercisable at the date of death, by the legal representative or legatee of the participant, for a period of one year from the date of death, or until the expiration of the stated term of the Incentive Stock Option, if earlier.

(ii) *Termination by Reason of Disability.*

(A) Any Incentive Stock Option held by a participant whose employment by the Company and its Affiliates has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of one year from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(B) The Committee shall have sole authority and discretion to determine whether a participant’s employment has been terminated by reason of Disability.

(iii) *Termination for Cause.* If any participant’s employment by the Company and its Affiliates has been terminated for Cause, as determined by the Committee in its sole discretion, any Incentive Stock Option held by such participant shall terminate immediately upon, and simultaneously with, termination of employment and be of no further force and effect.

(iv) *Other Termination.* Unless otherwise determined by the Committee, if a participant’s employment by the Company and its Affiliates terminates for any reason other than death, Disability, or for Cause, any Incentive Stock Option held by such

participant may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for thirty (30) days from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(b) *Non-Statutory Stock Options.* Any Non-Statutory Stock Option granted under the Plan shall contain such terms and conditions with respect to its termination as the Committee, in its discretion, may from time to time determine.

#### **SECTION 10. Tax Withholding and Notice.**

(a) *Payment by Participant.* Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any Federal, state, local and/or payroll taxes of any kind required by law to be withheld with respect to such income. The Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) *Payment in Shares.* A participant may elect, with the consent of the Committee, to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to an Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such Award, or (ii) delivering to the Company a number of shares of Stock with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

(c) *Notice of Disqualifying Disposition.* Each holder of an Incentive Stock Option shall agree to notify the Company in writing immediately after making a disqualifying disposition (as defined in Section 421(b) of the Code) of any Stock purchased upon exercise of an Incentive Stock Option.

(d) With respect to any employee who is subject to Section 16 of the Exchange Act, the following additional restrictions shall apply: (i) the election to satisfy tax withholding obligations relating to an option exercise in the manner permitted by this Section 10 shall be made either (1) during the period beginning on the third business day following the date of release of quarterly or annual summary statements of sales and earnings of the Company and ending on the twelfth business day following such date, or (2) at least six months prior to the date of exercise of the Option; and (ii) the Common Stock withheld to satisfy tax withholding, if granted at the discretion of the Committee, must pertain to an Option which has been held by the employee for at least six months from the date of grant of the Option.

#### **SECTION 11. Transfer and Leave of Absence.**

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another; and



(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing; provided, that the vesting date or dates of any unvested Award held by such employee shall automatically be extended by a period of time equal to the period of such approved leave of absence.

#### **SECTION 12. Amendments and Termination.**

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. Notwithstanding the foregoing, neither the Board nor the Committee shall have the power or authority to decrease the exercise price of any outstanding Stock Option, whether through amendment, cancellation and regrant, exchange or any other means, except for changes made pursuant to Section 3(c).

This Plan shall terminate as of the tenth anniversary of its effective date. The Board may terminate this Plan at any earlier time for any reason. No Award may be granted after the Plan has been terminated. No Award granted while this Plan is in effect shall be adversely altered or impaired by termination of this Plan, except upon the consent of the holder of such Award. The power of the Committee to construe and interpret this Plan and the Awards granted prior to the termination of this Plan shall continue after such termination.

#### **SECTION 13. Status of Plan.**

With respect to the portion of any Award which has not been exercised and any payments in Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards.

#### **SECTION 14. Change of Control Provisions.**

(a) Upon the occurrence of a Change of Control as defined in this Section 14:

(i) subject to the provisions of clause (iii) below, after the effective date of such Change of Control, each holder of an outstanding Stock Option shall be entitled, upon exercise of such Award, to receive, in lieu of shares of Stock, shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of Stock received in connection with the Change of Control;

(ii) the Committee may accelerate, fully or in part, the time for exercise of, and waive any or all conditions and restrictions on, each unexercised and unexpired Stock Option, Restricted Stock, RSU or Other Stock Unit Award, effective upon a date prior or subsequent to the effective date of such Change of Control, as specified by the Committee; or

(iii) each outstanding Stock Option may be cancelled by the Committee as of

the effective date of any such Change of Control provided that (x) prior written notice of such cancellation shall be given to each holder of such an Option and (y) each holder of such an Option shall have the right to exercise such Option to the extent that the same is then exercisable or, in full, if the Committee shall have accelerated the time for exercise of all such unexercised and unexpired Options, during the thirty (30) day period preceding the effective date of such Change of Control.

(b) "Change of Control" shall mean the occurrence of any one of the following events:

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) becomes, after the Effective Date of this Plan, a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Exchange Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

#### **SECTION 15. General Provisions.**

(a) *No Distribution; Compliance with Legal Requirements.* The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities laws and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop orders and restrictive legends on certificates, if any, for Stock and Awards as it deems appropriate.

(b) *Delivery of Shares.* Delivery of shares to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall either (i) have delivered stock certificates representing the shares in the United States mail, addressed to the participant, at the participant's last known address on file with the Company, or (ii) placed such shares in electronic form in an account in the participant's name.

(c) *Other Compensation Arrangements; No Employment Rights.* Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Affiliate.

(d) *Lock-Up Agreement.* By accepting any Award, the recipient shall be deemed to have agreed that, if so requested by the Company or by the underwriters managing any underwritten offering of the Company's securities, the recipient will not, without the prior written consent of the Company or such underwriters, as the case may be, sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares subject to any such Award during the Lock-up Period, as defined below. The "Lock-Up Period" shall mean a period of time not exceeding 180 days or, if greater, such number of days as shall have been agreed to by each director and executive officer of the Company in connection with such offering in a substantially similar lock-up agreement by which each such director and executive officer is bound. If requested by the Company or such underwriters, the recipient shall enter into an agreement with such underwriters consistent with the foregoing.

**SECTION 16. Effective Date of Plan.**

This Plan shall become effective upon its adoption by the Company's Board of Directors. If the Plan shall not be approved by the shareholders of the Company within twelve months following its adoption, this Plan shall terminate and be of no further force or effect.

**SECTION 17. Governing Law.**

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of Delaware without regard to its principles of conflicts of laws.

\* \* \*

## KVH INDUSTRIES, INC.

POLICY REGARDING AUTOMATIC GRANTS  
TO NON-EMPLOYEE DIRECTORS

This Policy (the “**Policy**”) was adopted by the Compensation Committee of the Board of Directors (the “**Board**”) of KVH Industries, Inc. (the “**Company**”) on April 13, 2009.

Pursuant to this Policy, each member of the Board who is not an employee of the Company or any subsidiary of the Company (a “**Non-Employee Director**”) shall automatically receive (without any further action by the Board or the Compensation Committee of the Board) Restricted Stock Awards pursuant to Section 7A of the Company’s Second Amended and Restated 2006 Stock Incentive Plan (the “**Plan**”) as described below.

Grant upon Initial Election. Each Non-Employee Director, upon his or her initial election to the Board, shall automatically be granted a Restricted Stock Award with respect to 10,000 shares of Common Stock. In addition, any director of the Company who is elected to the Board but who is not a Non-Employee Director at the time of his or her initial election to the Board and later becomes a Non-Employee Director shall automatically be granted a Restricted Stock Award with respect to 10,000 shares of Common Stock upon his or her first election to the Board as a Non-Employee Director. Each such Restricted Stock Award (each, an “**Initial Grant**”) shall vest as to one-fourth of the shares subject to the Award on each three-month anniversary of the date of grant, provided that the recipient is serving as a director of the Company on the relevant date of vesting.

Annual Grant. At the first meeting of the Board following the annual meeting of stockholders of the Company, each Non-Employee Director (other than any Non-Employee Director who shall have received an Initial Grant as a result of election to the Board at such meeting) shall automatically be granted a Restricted Stock Award with respect to 5,000 shares of Common Stock, provided that the recipient is serving as a director of the Company on the date of grant. Each such Restricted Stock Award shall vest as to one-fourth of the shares subject to the Award on each three-month anniversary of the date of grant, provided that the recipient is serving as a director of the Company on the relevant date of vesting.

Audit Committee – Grant upon Initial Appointment. Each Non-Employee Director, upon his or her initial appointment to the Audit Committee of the Board, shall automatically be granted a Restricted Stock Award with respect to 5,000 shares of Common Stock. Each such Restricted Stock Award shall vest as to one-fourth of the shares subject to the Award on each three-month anniversary of the date of grant, provided that the recipient is serving as a member of the Audit Committee of the Board on the relevant date of vesting.

Audit Committee – Annual Grant. Each Non-Employee Director serving on the Audit Committee of the Board, upon each anniversary of his or her appointment to the Audit Committee of the Board, shall automatically be granted a Restricted Stock Award with respect to 5,000 shares of Common Stock, provided that the recipient is serving as a member of the Audit Committee of the Board on the date of grant. Each such Restricted Stock Award shall vest as to

one-fourth of the shares subject to the Award on each three-month anniversary of the date of grant, provided that the recipient is serving as a member of the Audit Committee of the Board on the relevant date of vesting.

Restricted Stock Agreement. Unless otherwise determined by the Compensation Committee of the Board, each Restricted Stock Award granted under this Policy shall be made pursuant to the form of restricted stock agreement.

Adjustments. All share numbers in this Policy shall be adjusted automatically in accordance with Section 3(d) of the Plan.

Additional Grants. Non-Employee Directors may be granted Awards in addition to those described in this Policy.

General. This Policy may be amended or terminated at any time by the Compensation Committee of the Board for any reason. Any dispute or ambiguity concerning the application of the terms of this Policy shall be resolved by a determination of the Compensation Committee of the Board, in its sole discretion.

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

I, Martin A. Kits van Heyningen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KVH Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2009

By: /s/ Martin A. Kits van Heyningen

Martin A. Kits van Heyningen  
President, Chief Executive Officer and  
Chairman of the Board

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

I, Patrick J. Spratt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KVH Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2009

By: /s/ Patrick J. Spratt

---

Patrick J. Spratt  
Chief Financial and Accounting Officer

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

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned President, Chief Executive Officer and Chairman of the Board certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 6, 2009

/s/ Martin A. Kits van Heyningen

Martin A. Kits van Heyningen  
President, Chief Executive Officer and  
Chairman of the Board



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

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Financial and Accounting Officer of the Company, certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 6, 2009

/s/ Patrick J. Spratt

Patrick J. Spratt

Chief Financial and Accounting Officer