United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year end December 31, 1997

OR

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

For the transition period from ________ to ___________

Commission file number: 0-28082

KVH Industries, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	05-0420589
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
50 Enterprise Center, Middletown, RI	02842
(Addressof principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to section 12(g) of the Act: Common Stock, $0.01 par value, per share. (Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ( ).

As of March 13, 1998, the aggregate market value of the voting stock held by non-affiliates of the Registrant was $23,096,539 based upon a total of 5,599,161 shares held by non-affiliates and the last sale price on that date of $4.125. As of March 13, 1998, the number of shares outstanding of the Registrant's common stock was 7,086,648.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement relating to the 1998 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report on Form 10-K. The Company anticipates that its definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the Company's fiscal year end on December 31, 1997.

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PART III

PART IV

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995

With the exception of historical information, the matters discussed in this Annual Report on Form 10-K include certain forward-looking statements that involve risks and uncertainties. Among the risks ands uncertainties to which the Company is subject are the risks associated with managing the Company's inventory in light of product life cycles and technological change, the Company's relationship with its significant customers, market acceptance of new product offerings in the emerging satellite communications market, reliance on satellite networks, reliance on a limited number of products, dependence on key personnel and fluctuations in annual and quarterly performance. As a result the actual results realized by the Company could differ materially from the statements made herein. Shareholders of the Company are cautioned not to place undue reliance on forward looking statements made in the Annual Report on Form 10-K or in any document or statement referring to this Annual Report on Form 10-K. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Forward Looking Statements."

PART I

Item 1. Business.

Overview

KVH Industries, Inc. ("KVH or the "Company") was organized in Rhode Island in 1978 and was reincorporated in Delaware on August 16, 1985. The Company's executive offices are located at 50 Enterprise Center, Middletown, RI and its telephone number is (401) 847-3327. Unless the context otherwise requires, references to KVH or the Company include KVH Industries, Inc. and its subsidiary.

KVH utilizes its proprietary fiber optic, autocalibration and fluxgate sensor technologies to produce navigation and mobile satellite communications systems for commercial, military and marine applications. KVH's digital navigation systems utilize the Company's proprietary autocalibration and applications software along with its advanced sensor technology to provide users with accurate, real-time heading, orientation and position information. In 1993, the Company entered the emerging market for mobile satellite communications by introducing an active-stabilized antenna-aiming system that draws upon the Company's proprietary software and sensor technology. In 1995 the Company introduced TracVision, a complete system for receiving DIRECTV(R) and USSB satellite television at sea. In 1997 the Company acquired the assets of the fiber optic sensor group ("FOG") of the Andrew Corporation in order to enhance the capabilities of its existing sensor systems.

The Company developed the first commercial digital fluxgate compass in 1982 and rapidly became the leading supplier of digital compass systems for the marine market. KVH also developed an advanced line of marine instrument systems that integrate its compass systems with other navigation devices and sensors. In 1988, the Company began to supply militarized versions of its digital compass systems to the United States Navy. During the Persian Gulf War in 1991, KVH combined its heading sensor expertise and its proprietary autocalibration technology to develop its tactical navigation ("TACNAV") systems for use in military land vehicles, such as armored personnel carriers and tanks, for which there had previously been no practical, on-board method of navigation. The United States and a number of foreign military services have now specified KVH's TACNAV system as standard equipment in a variety of land vehicles.

The Company believes that the recent growth of the satellite communications industry may represent a significant opportunity to apply the Company's core technologies. Use of satellite communications systems on a moving vehicle or vessel requires that a directional antenna be kept accurately pointed at a geostationary satellite. KVH's software-driven sensor technology has enabled the Company to develop compact, accurate and affordable antenna-aiming systems and turnkey satellite communications systems that integrate real-time heading, orientation and position data in order to maintain a continuous satellite link by actively aiming an antenna to compensate for platform movement.

KVH sells digital compass and tactical navigation systems directly to the United States Department of Defense and to the armed forces of other countries in Europe and the Middle East. KVH systems are also incorporated by major defense contractors, including United Defense and General Motors Corporation, in the manufacture of military land vehicles. The Company sells its antenna-aiming systems and mobile satellite communications systems to original equipment manufacturers ("OEMs"), and as turnkey systems to end-users through its reseller distribution channel.

Satellite Communications

Demand for mobile telecommunications services has grown rapidly in recent years. Recent technological changes and increased competition have resulted in lower air time charges, smaller and less expensive mobile communication transceivers that offer enhanced features and functionality, and a greater range of communication and information services and providers. These trends have both encouraged and facilitated more widespread use of mobile communications, and consumers have increasingly come to expect 24-hour worldwide mobile access to a broad range of communications, information and entertainment services.

Mobile satellite communications serve markets, such as offshore marine use, not capable of being addressed by cellular or other similar earth-based communications services. In satellite communications services, satellites in geostationary earth orbit provide continuous communications coverage over a wide geographic area. Early satellite communications systems, employing analog technology, were used primarily for voice communications. Mobile transceivers for such systems were large and expensive, requiring an antenna dome four feet in diameter, and typically selling for $40,000 or more. Usage of such services was also expensive, with airtime rates ranging from $8.00 to $10.00 per minute. As a result, use of satellite communications in the marine market historically was limited to larger commercial vessels and luxury yachts. Recently, the advent of more powerful satellites, as well as digital transmission and data compression technologies, has enabled the development of a new generation of mobile satellite communications services, making satellite communications practical for a range of smaller vessels, such as work boats, fishing vessels and recreational craft. These new services include the following:

Worldwide Voice and Data Services. Worldwide mobile communications capabilities currently are offered principally by the International Maritime Satellite Organization ("INMARSAT"), a consortium of 79 member countries that operate a network of geostationary satellites providing worldwide communications services through mobile terminals on air, sea and land. INMARSAT M service was introduced in the early 1990s to provide worldwide digital voice, fax and data communications, using an 18-inch antenna and mobile terminals costing $20,000 to $25,000, and with airtime charges of approximately $5.00 per minute. INMARSAT MINI-M service was introduced in 1997 to expand INMARSAT coverage by offering smaller lower cost services, using a 10-inch antenna and mobile terminals costing $7,000 to $8,000 and with airtime charges of $2.70 to $3.00 per minute.

Regional Voice and Data Services. Regional satellite voice, fax and data communications systems offered by a number of providers have commenced or are expected to commence operations in several areas of the world. AMSC has recently introduced the SKYCELL regional mobile satellite communication service, which uses a high-powered satellite and spot-beam technology to provide digital voice, fax and data services to land, air and sea-based customers in a service area consisting of up to 500 miles off the coast and the entire continental United States, as far North as the Beijing Sea and South to the Panama Canal. AMSC's license authorizes it to build, launch and operate three geostationary satellites. Currently, only one such satellite, launched in April 1995, is operational.

Regional DBS-TV Services. New satellite and digital compression technologies have also enabled the development of regional direct broadcast satellite television ("DBS-TV") services, in which up to 200 channels of laser disk quality video and CD quality audio are broadcast by satellite to subscribers who use dish antennas, compact receivers and decoders to receive and process the signals. A number of providers of such DBS-TV services have commenced operations in the last several years. These include DIRECTV, a subsidiary of GM Hughes Electronics, and U.S. Satellite Broadcasting, Inc. ("USSB"). The current service area for DIRECTV and USSB is the continental United States, and United States coastal waters up to 200 miles offshore. Similar DBS-TV services are being offered by other service providers in the United States, Central and South America, Japan and Europe, and are expected to be offered elsewhere. The high-quality picture and sound, broad range of programming alternatives, and compact size and cost of the DSS in-home system have helped DBS-TV find rapid acceptance for home use in the United States consumer market. The same attributes of DBS-TV have opened a new segment of the marine market, and made the reception of high-quality television broadcasts at sea practical for a range of smaller commercial and recreational vessels. Mobile DBS-TV terminals for marine use are currently available for approximately $5,500 to $8,000. Subscriber fees range from $30 to $70 per month.

Satellite communications technologies generally require an earth-based antenna to be kept precisely aimed at a geostationary satellite. On mobile platforms, such as vessels at sea, the antenna platform may be subjected to rapid acceleration in pitch, roll and yaw axes simultaneously, making it difficult to keep the antenna precisely aimed. An early approach to antenna aiming was passive stabilization, which incorporates a set of flywheels that rely on gyroscopic inertia to keep the antenna stationary in relation to the earth while the rest of the vessel moves. Their large size, high cost, and difficulty of miniaturization have restricted use of passive stabilization systems. More recently introduced active-stabilized systems detect platform motion and actively point the antenna to compensate for it. However, some active-stabilized systems are subject to inherent design limitations that result in periodic signal loss and the need for time-consuming signal reacquisition and have other operational constraints that reduce their ability to provide on-demand, uninterrupted service.

ASAP. The KVH active-stabilized antenna pedestal system ("ASAP") uses the KVH digital gyro compass and inclinometer to measure precisely the pitch, roll and yaw of an antenna platform in relation to the earth. Utilizing the Company's proprietary stabilization and control software and five on-board microprocessors, the ASAP system computes the antenna movement necessary to keep the antenna fixed on its target and transmits precise motor control instructions to a pair of stepper-motors mounted on the antenna pedestal to aim the antenna. The ASAP system is smaller, more reliable, lighter and substantially less expensive than passive-stabilized systems enabling practical and affordable satellite communications for a broad range of commercial and recreational users. The ASAP uses a proprietary two-axis gimbal joint and a design that incorporates fewer moving parts than competing active-stabilized systems. The design of the KVH ASAP eliminates cable wrap and other causes of periodic signal loss common to other active-stabilized systems. The system also permits rapid initial acquisition of the satellite signal without operator intervention. OEM prices for the Company's ASAP systems range from approximately $1,700 to approximately $3,100.

TracVision. The Company's TracVision product is a complete mobile DBS-TV receiver system for use by DBS-TV subscribers in the marine market. The TracVision system includes an ASAP system, a 24-inch diameter carbon-fiber antenna and 30-inch antenna dome and a DSS(R) digital receiver. TracVision is sold as a turnkey system, including DIRECTV and USSB service activation. TracVision enables commercial and recreational vessels to receive up to 200 channels of laser disc quality television, including all major networks, subscription programming and pay-per-view services and up to 25 CD quality audio channels, while underway or at anchor anywhere in United States coastal and inland waters and up to 200 miles offshore. The list price of the Company's TracVision system, exclusive of the DSS receiver, is $7,995. Typically, TracVision systems are purchased with multiple DSS receivers to permit independent viewing at more than one location on the vessel. DSS receivers are available from the Company, as an authorized RCA distributor, at a manufacturer's suggested retail price of $495.

TracVision II. The Company's TracVision II is the smallest fully stabilized satellite television system available. Measuring under twenty-inches in diameter, TracVision II's compact design is suitable for boats as small as thirty-five feet. Using a three-axis digital gyro sensor and a new pedestal design, TracVision II measures every movement of the vessel (turn, pitch and roll) and moves the antenna in exactly the opposite direction to remain locked-on the satellite signal. TracVision II is sold as a turnkey system, including DIRECTV and USSB service activation. TracVision II enables commercial and recreational vessels to receive up to 200 channels of laser disc quality television, including all major networks, subscription programming and pay-per-view services and up to 25 CD quality audio channels, while underway or at anchor anywhere in United States coastal and inland waters and up to fifty to one hundred miles offshore.

Tracphone. The Company's turnkey AMSC SKYCELL satellite telephone system, incorporating an 11 1/2 inch high-gain antenna mounted on an ASAP system and a Mitsubishi satellite transceiver and handset is sold in the marine market under the Company's Tracphone brand. The KVH Tracphone system is intended to provide affordable access to voice, fax and data communications for users in the commercial and recreational marine markets through the AMSC service area. AMSC's published manufacturer's suggested retail prices for a Tracphone system range from approximately $5,000 to $6,500.

Tracphone 50. The Company's turnkey INMARSAT mini-M satellite telephone system, incorporating an 11 1/2-inch high-gain antenna mounted on an ASAP system and a Thrane and Thrane satellite transceiver and handset is sold in the global marine market under the Company's Tracphone 50 brand. The Tracphone 50 system is intended to provide affordable INMARSAT mini-M voice , fax and data communications for users anywhere in the world. The Company markets the Tracphone 50 jointly with Station 12, a member of the KPG Group of the Netherlands. Station 12 provides all voice, fax and data services as well as a wide variety of value added services on a global basis. Sataion 12 via one access code offers all INMARSAT services from two land earth stations in Brum, the Netherlands and Yamaguchi, Japan. The list price of the Tracphone 50 is approximately $8,000 and Station 12 airtime ranges from $2.30 to $3.30 per minute.

Navigation Systems

The Company's navigation products consist of its Azimuth and Sailcomp lines of digital compass systems, its DataScope hand-held compass and rangefinder, its Azimuth Gyro compass, its Quadro line of integrated marine instrumentation systems, its TACNAV and TACNAV Light tactical navigation systems and its family of fiber optic gyro sensors.

Digital Compass Systems. The Company's digital compass systems utilize its digital fluxgate heading sensor to sample the surrounding magnetic field and output precise heading data at rates up to ten times per second. These signals are relayed to an on-board microprocessor, where sophisticated filtering and averaging algorithms translate the output to stable heading information, and the Company's proprietary autocalibration software continuously compensates for the effects of magnetic interference without the need for operator intervention. In highly dynamic applications where greater accuracy and fully stabilized heading output is required, the Company's fluxgate heading sensor is integrated with one or more of its angular rate gyros and inclinometers. Integration of the output of multiple sensors through the Company's integration software and error-correction algorithms is the key to this technology, enabling the Company to combine a variety of inexpensive sensors to provide three-dimensional error correction and stabilization capabilities previously available only from more costly systems. This software-enabled integration of low-cost sensors forms the basis of KVH's Azimuth Digital Gyro Compass, as well as the sensor system for its active-stabilized antenna-aiming systems.

KVH adds application-specific software features to its basic compass systems to provide particular functions appropriate for each of its market segments. KVH compass systems interface with GPS receivers using industry-standard protocols and provide accurate heading information to other instruments. The Company's systems display complex navigation and performance data in a variety of highly legible graphical formats. The compass display can be used to report position information from the GPS and to compute and display steering instructions or time, distance and bearing to a desired location. Military versions of the Company's digital compass systems include ruggedized housings, military type connectors and cables, improved shielding against electromagnetic interference and other features designed to enhance them for the military environment, including interfacing with the vehicles laser rangefinder, odometer, and GPS.

DataScope Compass and Rangefinder. KVH's DataScope hand-held compass and rangefinder combines a 5 x 30 monocular, a digital fluxgate compass, an electronic rangefinder, a precise quartz crystal clock and a microprocessor in a simple compact, lightweight unit. The DataScope's patented heads-up display allows the user to take bearings, calculate the range to the target and record the time of up to 9 bearings without ever taking his eye from the target. The DataScope is used in a wide variety of marine, outdoor, military, technical, sporting and commercial applications.

Quadro Network. The KVH Quadro system is a line of integrated instrumentation systems for marine navigation. Quadro systems include a central processing unit, a variety of sensors and multi-function displays, networked through a single coaxial cable. The central processor integrates data from multiple sensors, such as a digital compass, boat and wind speed instruments and GPS, and permits the output to be viewed on remote system displays located anywhere on the boat. The output of each instrument can be displayed individually, or computed values based on integration of multiple inputs may be selected. For example, digital heading, boat speed, and apparent wind velocity and angle may be combined to calculate true wind speed and direction. Similarly, digital heading, boat speed and GPS data may be used to calculate the bearing, time and distance to a selected destination. Programmable multi-function displays permit the desired output to be presented in alphanumeric or graphical analog format on any system display. Quadro system output can also be interfaced with electronic chart plotters, autopilots and other electronic navigation systems. Remote control keypads permit operation from various positions in the boat.

TACNAV. KVH's TACNAV system, an interactive, real-time tactical navigation and targeting system for armored vehicles, has been selected for the United States Army Bradley Fighting Vehicle, the Canadian Army LAV-25 fleet, the Swedish Army CV90 fleet and other land vehicles used by the armed forces of these and a number of other nations. The TACNAV system analyzes and displays data from its digital heading and orientation sensors and an integrated GPS system, as well as inputs from multiple other devices such as a vehicle odometer, turret angle encoder and laser rangefinder. TACNAV's automatic compensation software solves the problem of providing accurate heading in the armored vehicle environment where conventional magnetic compasses cannot operate. KVH's software also integrates GPS and compass data and provides continuously updated steering instructions. TACNAV calculates the turret azimuth by combining data from the vehicle's turret angle encoder with vehicle heading information, which results in improved vehicle orientation and target acquisition. When further integrated with the vehicle's laser rangefinder, TACNAV calculates the grid position of the target and can be used for far target location. By accepting input from the vehicle odometer, TACNAV also provides a backup for GPS, which may be blocked, either accidentally or by jamming. If GPS input is unavailable, KVH software seamlessly switches to dead reckoning navigation from the vehicle's last known GPS location, using heading and odometer measurements.

The Company's TACNAV systems enable armored crews to maneuver and locate targets more rapidly and accurately. The ability to maintain accurate battlefield orientation provides improved situational awareness and assists crews in distinguishing friendly from hostile forces. The TACNAV system is available in a variety of configurations, ranging from a simple GPS-compatible compass system with a single commander's display, to a complete, integrated system that provides full tactical navigation and targeting capabilities and includes up to three separate commander's, gunner's and driver's displays.

Fiber Optic Sensors. On October 30, 1997 the Company acquired the assets of the sensor products group of Andrew Corporation. This acquisition provided the Company with a set of proprietary fiber optic gyroscopic sensors that will extend the accuracy and performance range of the Company's existing fluxgate based product offerings. A Fiber Optic Gyroscope ("FOG") sensor is a true single-axis rotational rate sensor with no moving parts, resulting in long life, stable operation, and lack of sensitivity to rotation or acceleration in other axes. The FOG's excellent resolution, threshold and dynamic range combined with resistance to shock and vibration solves a wide variety systems needs over the wide range of operating conditions. The Company offers a variety of FOG systems at various prices, offering OEM customers a range of cost and performance options suitable to their applications.

Embedded Sensors. KVH offers a line of compact, intelligent sensors that can be readily integrated into a wide variety of applications where accurate, real-time heading and orientation information is required. The sensors' on-board microprocessors and proprietary software, industry-standard digital output, low power consumption and advanced functionality, such as autocompensation capability, simplify the task of OEM system design, making them a cost-effective solution in many challenging applications. The Company provides a variety of digital heading sensors, stabilized gyro compasses, rate sensors, inclinometers, sensing coils and other standard sensors and sensor systems at various prices, thus offering OEM customers a range of cost and performance options suitable to their applications.

Sales and Marketing; Customers

The Company sells its navigation and satellite communications products through a variety of channels, including a direct sales force and a network of dealers, value added resellers, distributors and sales representatives. KVH's commercial and recreational marine navigation products are sold through a dealer network of more than 250 catalog chain outlets, including West Marine, Boaters' World and Boat U.S., more than 100 technical marine electronics value added resellers, and independent sales representatives. KVH's military navigation products are sold to the armed forces of the United States and other countries, as well as to OEM manufacturers, by the Company's direct sales force, distributors and sales representatives. KVH's embedded sensors and sensor systems are sold by the Company's direct sales force, distributors and sales representatives to a broad range of OEM manufacturers, such as Lockheed, Harris and Raytheon. The Company's ASAP antenna-aiming systems are sold directly to both OEM manufacturers of satellite telephone transceivers and as turnkey systems directly to end-users through the Company's world-wide network of technical dealers and distributors. FOG products are sold directly to OEM customers through the same distribution system that the Company utilizes to sell its commercial sensors. The Company's agreements with its dealers, value added resellers, distributors and sales representatives generally are non-exclusive. The Company's products are sold in Europe through the Company's KVH Europe subsidiary, located in Hoersholm, Denmark, and elsewhere in the world through a network of distributors.

A significant portion of the Company's sales depends on a small number of customers. Sales to AMSC accounted for approximately 12% and 27% of net sales in 1997 and 1996. Sales of TACNAV systems to General Motors Corporation accounted for approximately 8%, 14% and 13% of the Company's net sales in 1997, 1996 and 1995, respectively, and sales of TACNAV systems to the Government of Sweden accounted for approximately 13%, 14% and 25% of the Company's net sales in 1997, 1996 and 1995. Revenues from sales of commercial navigation products, including digital compass systems and other navigation products for recreational, commercial and OEM markets, as a percentage of the Company's total net sales, were 23%, 21% and 37%, respectively, in 1997, 1996 and 1995. Revenues from combined sales of military navigation systems and related customer funded research and development constituted 56%, 41% and 52% of the Company's total net sales in 1997, 1996 and 1995, respectively. Revenues from sales of satellite communications systems, including antenna-aiming systems sold to OEM customers as well as complete satellite communications systems, represented 21%, 38% and 11% of the Company's total net sales in 1997, 1996 and 1995, respectively. Sales of the recently acquired FOG sensors were not material in 1997.

Relationship with AMSC

Under an agreement with AMSC (the "AMSC Agreement"), the Company acts as a systems integrator and manufactures, tests, and ships complete high-gain AMSC SKYCELL satellite telephone terminals for AMSC. Pursuant to the AMSC Agreement, AMSC agreed to purchase a minimum of 1,000 baseline telephone systems and 4,000 deluxe systems, for an aggregate order price of $10.2 million. AMSC may, at its option, purchase up to an additional 15,000 units on substantially the same terms and conditions. AMSC's sales estimates have fallen well below expectations. The Company does not anticipate that AMSC will exercise the reorder option. AMSC is required to supply to KVH, at AMSC's expense, the Mitsubishi telephone transceivers and handsets included in the system. KVH is required to supply, at its expense, the ASAP system, antenna, baseplate and antenna dome, and to assemble, test and package the completed system. Completed Tracphone systems are delivered by KVH to its own warehouse, at which time title passes to AMSC and the Company invoices AMSC for the full price of the products. The AMSC Agreement provides that AMSC dealers and resellers will market the Tracphone product through an AMSC dealer network, at AMSC's expense. The Company drop ships completed units from its warehouse to the dealer's customer, is responsible for billing and collecting from the customer the price specified by the dealer and remits the full amount to AMSC on a bimonthly basis. AMSC has made an advance payment to the Company of $2.5 million, which was applied to the purchase price of the last of the 5,000 units originally covered by the AMSC Agreement. The Company delivered the last of the 5,000 units in the second quarter of 1997.

Backlog

The Company's backlog at December 31, 1997 and 1996 was $3.0 million and $11.1 million, respectively. Of the Company's total backlog at December 31, 1997, approximately $3.0 million is expected to be shipped during 1998. The Company's total backlog at December 31, 1997 includes $1.4 million attributable to orders for military navigation systems and $1.6 million attributable to orders for mobile satellite communication and FOG products. The Company's total backlog at December 31, 1996 included $7.7 million attributable to orders for military navigation systems and $3.1 million attributable to orders for the AMSC mobile satellite communication product.

The Company includes in its backlog only firm orders for which it has accepted a written purchase order. Many of the Company's orders are subject to cancellation, generally without penalties. In particular, the Company's military orders can generally be canceled at any time for the convenience of the customer, without penalty other than recovery of the Company's actual costs incurred through the date of cancellation.

The Company's revenue from commercial and recreational marine markets is derived primarily from sales to nonstocking distributors, retail chains, OEMs and other resellers who require short lead times for delivery of products to end-users. The Company manufactures its products based on forecast commercial and recreational marine orders. Customers may cancel or reschedule orders without significant penalty and the prices of products may be adjusted between the time the purchase order is booked into backlog and the time the product is shipped to the customer. For these reasons, the Company believes that its backlog in general, and its backlog of commercial and recreational marine orders in particular, are not necessarily meaningful in predicting the Company's actual revenue for any future period.

Research and Development

The Company's research and development efforts are focused on the development of new products based on its core technologies that will have broad application across its strategic markets, and on improving the performance and reducing the manufacturing costs of its existing products. A substantial portion of the Company's research and development expenditure is devoted to basic research relating to specified core technology development projects.

The Company's research and development activities have historically fallen into two categories: internally funded research and development and customer funded research and development. The Company has financed virtually all of the cost of developing the Company's marine navigation and satellite communications products. However, much of the funding used to develop KVH's products for the military navigation market, in which a significant engineering effort to develop enhanced features requested by the customer is frequently involved, has been derived from government sources. Development of the Company's core sensor technology has also been subsidized to a large extent by grants under the United States government's Small Business Innovative Research ("SBIR") program. The Company's total expenditures for research and development during 1997, 1996 and 1995 were as follows:

	Year ended December 31, 1997	1996	1995
		(in thousands)	
Internally funded research and development	$3,175	2,431	1,279
Customer funded research and development	630	869	2,445
Total research and development	$3,805	3,300	3,724

The Company's future success depends on its ability to achieve technological advances and incorporate such advances into new products. Advances in product technology will require continued substantial investment in research and development. The amount of the Company's customer-funded research and development has decreased as its military navigation systems have moved from the development to the production stages. Accordingly, the Company expects to increase substantially the amounts expended on its own internally funded research and development. Even if the Company increases its internal funding of research and development, its total expenditures for research and development may decrease, due to the expected reduction in customer-funded research and development. The timely availability of new products in volume and their acceptance by customers are important to the future success of the Company. Development and manufacturing schedules for technology products are difficult to predict, and there can be no assurance that the Company will achieve timely initial customer shipments of new products. From time to time, the Company or its competitors may announce new products, capabilities or technologies that may have the potential to replace or shorten life cycles of the Company's existing products. No assurance can be given that announcements of currently planned or other new products will not cause customers to defer purchasing existing Company products.

Manufacturing

The Company's manufacturing operations consist primarily of final assembly and testing of products, material and procurement management, and quality assurance and manufacturing engineering. In addition, the Company manufactures certain subassemblies and components, such as sensor coils. The Company contracts with third parties for some services, such as the fabrication and assembly of printed circuit boards, injection-molded plastic parts and machined metal components.

The Company believes that there are a number of acceptable vendors for most of the components and third-party services used in the manufacture of its products. However, the Company procures certain of such components and services from a sole source. In some instances the Company may select a single source, despite the availability of multiple sources, in order to maintain quality control or to develop a strategic relationship with the supplier. The Company has in the past experienced delays in production as a result of insufficient supply or delay in delivery of certain components, production or quality control difficulties experienced by a sole supplier, or, in one instance, the failure of a sole supplier to provide an application-specific integrated circuit designed specifically for use by the Company in one of its products. Occurrence of shortages, delays or other problems in the future could result in delay or interruption of the Company's production, which could have a material adverse effect on the Company's results of operations and damage customer relationships until an alternative source of supply could be obtained.

Competition

The Company encounters intense competition in each of its markets. In the commercial and recreational marine navigation market, the Company's principal competitors include a large number of domestic and international companies that manufacture and market stand-alone digital compasses, digital heading sensors and integrated instrument systems. The Company believes that the principal bases of competition in the commercial and recreational marine navigation market include product design and performance; flexibility and ease-of-use; product quality and the quality of customer support; and reputation of the vendor in the marine market.

In the market for military land vehicle tactical navigation systems, the Company competes with a large number of domestic and international companies that produce dead-reckoning, inertial, GPS-based, or radio-based navigation systems and systems that provide integrated magnetic heading and GPS navigation capabilities. Most of these competitors have more experience than the Company in manufacturing and marketing products for the military marketplace. The Company believes that the principal bases of competition in the market for military land vehicle navigation systems are product performance; field reliability; ease and flexibility of installation, maintenance and field modification; size and weight of the unit; size and stability of the vendor; and price.

In the mobile satellite antenna-aiming market, the Company faces competition with its ASAP systems from one principal competitor Sea Tel, Inc., that manufactures and markets a broad line of marine satellite communications and satellite tracking equipment, including antenna systems for INMARSAT and DBS-TV applications. This competitor has greater experience than the Company in marketing DBS-TV systems in the marine market and has a larger installed base of such systems. A second competitor, Datron Systems, Inc. (DTSI), provides a stabilized antenna design for RV and marine reception of DBS-TV which competes with the company's turnkey DBS products. The Company also competes with Westinghouse and a small number of other manufacturers of active stabilized antenna-aiming systems and may in the future encounter competition from other manufacturers of satellite communications equipment that may seek to develop antenna-aiming systems or other mobile satellite communications systems or equipment. The Company believes that the principal bases of competition in the satellite communications market are system performance; reliability; antenna size; cost and customer support.

The Company's fiber optic gyro and embedded sensors compete with products of a large number of companies that produce magnetic sensors and gyroscopic rate sensors for sale in the OEM market, as well as certain OEMs, including some of the Company's own customers, that choose to produce their own sensors for certain OEM applications. Some of the larger competitors in the gyroscopic rate sensor market are Litton Corporation and Honeywell Corporation in the United States, Hitachi Corporation of Japan and Fizoptica of Russia. Many of the Company's competitors offer products that, while providing accuracy and performance inferior to that of the Company's products, are substantially less expensive.

Many of the Company's competitors are larger and better known than the Company and have substantially greater research and development, engineering, manufacturing, marketing and financial resources than does the Company. There can be no assurance that the Company will be able to compete successfully in the future, that the Company's products will achieve or maintain future market acceptance, or that competition will not have a material adverse effect on the Company's business, financial condition and results of operations.

Intellectual Property

The Company's ability to compete effectively depends to a significant extent on its ability to protect its proprietary information. The Company relies primarily on trade secret laws, confidentiality procedures and licensing arrangements to protect its intellectual property rights. The technology licenses on which the Company relies include an angular rate gyro license from Etak, Inc. and a license from Thomson Consumer Electronics, Inc. relating to certain consumer electronic components. Some of these technology licenses may be terminated upon short notice, and there can be no assurance that third-party technology licenses will continue to be available to the Company on commercially reasonable terms. The loss of or inability to maintain any of these technology licenses could result in the discontinuation of, or delays or reductions in, product shipments unless and until equivalent technology is identified, licensed and integrated or bundled. Any such discontinuation, delay or reduction would materially adversely affect the Company's business, financial condition and results of operations. Most of the Company's technology licenses, including those from Etak, Inc. and Thomson Consumer Electronics, are non-exclusive, and there can be no assurance that the Company's competitors will not obtain licenses to, and utilize such technology in competition with, the Company. The Company also licenses the trademark "DSS" from DIRECTV.

Where appropriate, the Company seeks patent protection. The Company has thirty issued United States patents covering the Company's core sensor and fiber optic technologies. The Company intends to seek further patents on its technology, if appropriate. In addition to patents, the Company registers its product brand names and trademarks in the U.S. and other key markets where the company does business around the world. Expiration of the Company's patents and trade marks range from March 3, 2000 to April 7, 2015.

There can be no assurance that patents will issue from any of the Company's pending or any future applications or that any claims allowed from such applications will be of sufficient scope or strength, or be issued in all countries where the Company's products can be sold, to provide meaningful protection or any commercial advantage to the Company. Also, competitors of the Company may be able to design around the Company's patents. The laws of certain foreign countries in which the Company's products are or may be developed, manufactured or sold may not protect the Company's products or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of the Company's technology and products more likely.

The Company generally enters into confidentiality agreements with its consultants, key employees and sales representatives and generally controls access to and distribution of its technology, software and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization, or to develop similar technology independently. Also, the Company has delivered certain technical data and information to the United States government under procurement contracts, and the United States government may have unlimited rights to use such technical data and information or to authorize others to use such technical data and information. There can be no assurance that the United States Government will not authorize others to use such technical data for purposes competitive with those of the Company. Although the Company intends to defend its intellectual property, there can be no assurance that the steps taken by the Company to protect its proprietary information will be adequate to prevent misappropriation of its technology or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology.

The Company is subject to the risk of alleged infringement of intellectual property rights of others. Although the Company is not currently aware of any pending or threatened infringement claims with respect to the Company's current or future products, there can be no assurance that third parties will not assert such claims or that any such claims will not require the Company to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of such claims. No assurance can be given that any necessary licenses will be available or that, if available, such licenses can be obtained on commercially reasonable terms. Furthermore, litigation may be necessary to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition or results of operations.

Employees

As of December 31, 1997, the Company employed 191 full-time employees, including 18 in sales and marketing, 42 in engineering, 114 in manufacturing, and 17 in general administration and finance. Six of these employees are located in the Company's European office in Hoersholm, Denmark, twenty-seven are located in Orland Park, Illinois and four are located in Saint Petersburg, Florida. In addition, the Company utilizes the services of temporary or contract personnel within all functional areas to assist on project related activities. The number of such personnel will vary depending on specific project activity. At December 31, 1996, the Company employed two temporary or contract engineers. In addition, as of that date, three outside engineering firms were working for the Company on various projects. The Company generally enters into non-disclosure agreements with such temporary or contract personnel or firms with a view to protecting the confidentiality of its proprietary technology.

The Company believes its future success will depend in large part upon the continued service of its key technical and senior management personnel and upon the Company's continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for highly qualified personnel is intense, and there can be no assurance that the Company will be able to retain its key managerial and technical employees or that it will be able to attract and retain additional highly qualified technical and managerial personnel in the future. None of the Company's employees are represented by a labor union. The Company has not experienced any work stoppage and considers its relationship with its employees to be good.

Government Regulation

The satellite communications industry is heavily regulated. Satellite communications service providers in the United States such as AMSC must be licensed by the Federal Communications Commission ("FCC") before they can provide mobile voice and data services via satellite. The delays inherent in the governmental approval process may in the future cause the cancellation, postponement or rescheduling of the installation of satellite communications systems. The FCC has granted ten year licenses to AMSC for three satellites. There can be no assurance that such FCC licenses will be extended or that new licenses will be granted for additional or replacement satellites. FCC licenses are subject to numerous restrictions, including certain restrictions on foreign ownership and prohibitions on the assignment or transfer of control of the license without the prior consent of the FCC. Certain electronic devices must comply with FCC regulations, including rules governing emission of electromagnetic interference. The FCC and certain international agencies have also enacted regulations or entered into international agreements regulating and coordinating use of the L-band frequency spectrum, where the Tracphone product will operate. There can be no assurance that a sufficient range of the L-band spectrum will remain open to the Company or its customers. Changes in the regulation of the frequency spectrum or other regulatory changes could significantly restrict the Company's operations by restricting development efforts by the Company's customers, making current products obsolete, or increasing the opportunity for additional competition. The sale of the Company's TracVision and Tracphone products may be materially and adversely affected by governmental regulatory policies with respect to satellite communications, international treaties governing use of the communications spectrum and orbital location, the imposition of common carrier tariffs or taxation of telecommunications services. There can be no assurance that the FCC or other regulatory bodies will not promulgate new regulations that could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's manufacturing operations are subject to various laws governing the protection of the environment. These laws and regulations are subject to change, and such change may require the Company to improve technology or incur expenditures to comply with such laws and regulation. The Company believes that it complies in all material respects with applicable environmental laws and regulations and does not expect that any costs incurred in connection with complying with such laws or regulations will have a material effect on the Company's results of operations, financial position or liquidity.

The Company is subject to compliance with the United States Export Administration Regulations. Because some of the Company's products have military or strategic applications, some products are on the Munitions List of the International Trafficking in Arms Regulations ("ITAR") or are subject to a requirement for an individual validated license from the Department of Commerce in order to be exported to certain jurisdictions. There can be no assurance that there will not be changes in the Export Administration Regulations or the ITAR that restrict the Company's export of its products, and there can be no assurance that the Company will continue to be able to procure export licenses for its products under existing regulations. If the Company were restricted from exporting a significant amount of its products, there could be a material adverse effect on the Company's operating results and financial condition.

Under the Exon-Florio Amendment to the Defense Production Act of 1950, the United States President has authority to investigate and unwind any investment by foreign persons that could result in foreign control of an entity, if the President determines that foreign control would threaten national security. Because some of the Company's products are on the Munitions List, there can be no assurance that the President would not conclude that foreign control of the Company would affect national security. The prospect of the application of the President's powers under the Exon-Florio Amendment could have the effect of deterring transactions that would result in foreign control of the Company, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

Item 2. Properties.

The Company's executive offices, administration, product development and manufacturing facilities are housed in two adjacent buildings in Middletown, Rhode Island containing approximately 6,000 and 75,000 square feet respectively. The Company occupies the smaller of the two facilities under a lease that expires in September 1999, while the Company purchased the larger facility in May 1996. The Company relocated operations into the larger facility in 1997. Subsequent to the relocation of the Company's operations to the larger facility, the smaller facility became excess capacity. The Company negotiated a reduction of the leased space from approximately 30,000 square feet to 6,000 square feet and in so doing paid a one-time payment of $210,000 to modify the facility lease. The smaller facility will be utilized as a warehouse for the AMSC-owned Tracphone inventory to the extent that the AMSC inventory is shipped, the space in the smaller facility may become idle.

The Company utilized approximately $4.0 million dollars of the proceeds of the initial public offering to purchase and build-out a 75,000 square foot building adjacent to its existing 6,000 square foot leased facility in Middletown, Rhode Island in order to accommodate its manufacturing capacity requirements and relocate its operations.

On October 30, 1997 the Company purchased the assets of Andrew Corporation's sensor products group. The sensor product group occupies approximately 20,000 square feet within Andrew Corporation's Orland Park, Illinois facility and a 4,756 square foot facility in Saint Petersburg, Florida. The Saint Petersburg lease is renewable annually and expires on July 31, 1998. The purchase agreement stipulates that the Company may, as a transitionary expedient, occupy the space currently occupied within Andrew's, Orland Park facility on a rent free basis until January 31, 1998 for the manufacturing and administration facilities and until April 30, 1998 for the fiber drawing facility. The Company may occupy these areas within the Andrew Orland Park facility thereafter, at a rate of $1.25 per square-foot per month. The Company is actively relocating the sensor products operations to a leased facility. In January of 1998 the Company entered into a seven year a lease agreement beginning in April 1, 1998, to lease approximately 23,000 square feet of space. Prior to occupying the leased facility the Company is required to participate in the build-out cost of the facility. The Company estimates the cost to build out the facility at approximately $0.5 million dollars. The initial annual rent is $152,121; annual rents thereafter will escalate by 3% each year.

Item 3. Legal Proceedings.

In the ordinary course of business, the Company is a party to legal proceedings and claims. In addition, from time to time, the Company has contractual disagreements with certain customers concerning the Company's products and services. In the opinion of the Company's management, none of the current matters or proceedings, when ultimately concluded, are likely to have a material adverse effect on the results of operations or financial position of the Company and its subsidiary taken as a whole.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's common stock has traded on the NASDAQ National Market under the symbol KVHI since April 8, 1996. As of March 13, 1998, there were 128 holders of record of the Company's Common Stock. The Company has never declared or paid any cash dividends on its Common Stock and does not intend to pay cash dividends on its Common Stock in the foreseeable future. The Company intends to retain earnings for reinvestment in its business.

The Company's stock commenced trading on April 2, 1996 at $6.50. On March 13, 1998 the closing sale price for the Company's Common Stock was $4.13.

	1997		1996	
	High	Low	High	Low
First quarter	8.00	6.25	--	--
Second Quarter	10.00	5.00	10.88	6.50
Third Quarter	9.50	7.13	11.00	7.25
Fourth Quarter	8.13	3.75	10.63	7.00

Item 6. Selected Consolidated Financial Data.

The following selected financial data is derived from the Company's financial statements. This data should be read in conjunction with Item 8, Financial Statements and Notes thereto, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,				
	1997	1996	1995	1994	1993
	(in thousands, except per share data)				
Consolidated Statement of Income Data:					
Net sales	$ 25,570	$ 25,687	14,150	8,565	7,149
Cost of goods sold	14,085	14,607	8,447	5,082	4,046
Gross profit	11,485	11,080	5,703	3,483	3,103
Operating expenses:					
Research and development	3,175	2,431	1,279	727	695
Sales and marketing	3,738	3,040	2,494	1,652	1,621
General and administrative	1,895	1,624	1,058	763	705
Operating profit	2,677	3,985	872	341	82
Other (income) deductions:					
Interest (income) expense, net	(327)	(278)	27	60	16
Other expense (income)	(95)	14	20	(172)	10
Loss (gain) on currency translation	(138)	50	(4)	(44)	(18)
Income before income tax expense (benefit)	3,237	4,199	829	497	74
Income tax expense (benefit)	1,020	1,743	(365)	(48)	(114)
Net income	$ 2,217	$ 2,456	1,194	545	188
Per share information (1):					
Net income per common share - basic	$ 0.31	$ 0.39	0.25	0.11	0.04
Net income per common share - diluted	$ 0.30	$ 0.35	0.21	0.09	0.03
Weighted average number of shares outstanding:					
Basic	7,049	6,370	4,862	4,970	4,970
Diluted	7,498	7,055	5,710	5,851	5,851

	December 31,				
	1997	1996	1995	1994	1993
	(dollars in thousands)				
Consolidated Balance Sheet Data:					
Working capital	$ 12,410	12,570	3,214	2,110	1,553
Total assets	21,805	21,544	7,931	3,644	3,689

Long-term obligations (2)	7	61	113	579	433
Total shareholders' equity	19,194	16,563	3,654	2,451	1,906

(1) See note 1 of notes to consolidated financial statements for an explanation of the method of calculation.
(2) Includes obligations under capital leases. See note 6 of notes to consolidated financial statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Overview

KVH Industries, Inc. (the "Company") derives its revenues from the communications and navigation industries. Stabilized antenna systems for mobile satellite applications such as voice, fax and data transmission and television reception are primary sources of communications revenues. Navigation revenues are derived primarily from: positional and heading systems for tactical military applications in amphibious and land vehicles and for commercial applications in land vehicles; digital compasses and instrument systems for recreational, commercial and military applications; and embedded fiber optic sensors for OEM applications. The Company's in-house sales and marketing groups have established a worldwide network of independent sales representatives and distributors to market the Company's products. The majority of the Company's sales, product distribution and customer service is conducted at the Company's headquarters in Middletown, Rhode Island and the European market is managed through the Company's subsidiary in Hoersholm, Denmark. The Company's manufacturing process consists primarily of light assembly and final test, which is conducted at its facilities in Middletown, Rhode Island, Orland Park, Illinois, and St. Petersburg, Florida.

Results of Operations

The following table sets forth, for the periods indicated, certain financial data as a percentage of total revenues:

	Year Ended December 31,		
	1997	1996	1995
Net sales	100.0%	100.0%	100.0%
Gross profit	45.0	43.2	40.3
Research and development	12.4	9.5	9.0
Sales and marketing	14.6	11.8	17.6
General and administrative	7.4	6.3	7.5
Operating profit	10.6	15.6	6.2
Interest (income) expense, net	(1.3)	(1.0)	0.2
Other expense (income), net	(0.3)	0.0	0.1
(Gain) loss on currency translation	(0.5)	0.2	(0.0)
Income before income tax (expense) benefit	12.7	16.4	5.9
Income tax (expense) benefit	(4.0)	(6.8)	2.6
Net income	8.7%	9.6%	8.5%

Years Ended December 31, 1997 and 1996

Net Sales. Net sales decreased slightly to $25.6 million in 1997 from $25.7 million in 1996. Product sales amounted to $24.6 million in both 1997 and 1996 while customer-funded research amounted to $1.0 and $1.1 million in 1997 and 1996 respectively. Navigation sales grew 28% to $20.3 million in 1997 from $15.9 million in 1996. Navigation sales increases resulted primarily from a $3.8 million, 40%, increase in navigation defense shipments. Fiber optic sensor sales resulting from the October 30, 1997 Andrew sensor products acquisition also contributed $0.4 million to 1997 navigation revenues. Communications sales amounted to $5.2 million in 1997, decreasing 47% from $9.8 million in 1996. Anticipated decreases in communication revenues reflected a large non-recurring OEM sale amounting to $5.6 million in 1996 that was somewhat off-set by direct sales of turnkey mobile satellite communications systems that increased to just under $1.0 million in 1997 from $0.1 million in 1996.

Cost of Goods Sold. The Company's cost of goods sold consists primarily of direct labor and material, labor and material overhead, other direct costs. Cost of goods sold includes costs of customer-funded research and development of $0.6 million in 1997 and $0.9 million in 1996. Cost of goods sold decreased to 55% as a percentage of net sales in 1997 from 57% as a percentage of net sales in 1996 resulting from a 17% sales mix shift to higher margin navigation products. Manufacturing overheads increased to $2.8 million in 1997 from $1.9 million in 1996 somewhat off-setting the gains in product cost of sales. Factors contributing to the manufacturing overhead increase included fiber optic sensor start-up costs and a one time lease modification charge. The Company anticipates that cost of goods sold will increase in 1998 as anticipated sales growth shifts to lower-margin satellite communication and fiber optic gyro products.

Research and Development Expense. Research and development expense consists primarily of direct labor and material, labor and material overhead and other direct costs associated with the Company's internally funded product development efforts. The Company expenses all of its software development costs in the period that they are incurred. Research costs increased to $3.2 million or 31% in 1997 from $2.4 million in 1996. Company-funded product developments accounted for $0.6 million of the 1997 increase while fiber optic start-up costs accounted for the remainder of the increase. Total research and development expenditures, including customer-funded product development expenditures included in cost of goods sold, were $3.8 million in 1997 and $3.3 million in 1996, reflecting the expected decline in customer-funded research. The Company anticipates that company-funded research and development will continue to increase as the result of further research to develop smaller, broader-bandwidth, mobile satellite communication products.

Sales and Marketing Expense. Sales and marketing expense consists primarily of salaries and related expenses for sales and marketing personnel, sales commissions, travel expenses, cooperative advertising, sales literature, advertising and trade shows. Sales and marketing costs grew to $3.7 million or 23% in 1997 from $3.0 million in 1996. Major factors contributing to the growth of sales expenses were staffing, travel and new production introduction costs. The Company anticipates that sales and marketing expense will increase, as the Company continues to further penetrate international markets, introduce new products in 1998 and aggressively promote fiber optic products.

General and Administrative Expense. General and administrative expense consists primarily of salaries and related expenses and other costs attributable to the Company's management, finance, accounting and human resources operations, as well as legal and other professional services. Administrative costs increased to $1.9 million or 17% from 1996 spending of $1.6 million, in response to fiber optic start-up costs, increased professional fees and staffing costs. Administration is anticipated to increase in 1998 due to the additive effect of the fiber optic sensor group acquisition.

Interest income. Interest income reflects the interest earned by investing the proceeds of the April 1996 public offering in Federal short-term obligations. The proceeds of the public offering in April 1996 fully funded the Company's operating and capital requirements in 1997.

Other (Income) Expense. Other income increased $0.1 million in 1997. The additional income reflects the award of a new-hire training grant from the state of Rhode Island.

Loss (Gain) on Foreign Currency Translation. The results of operations of the Company's foreign subsidiary, KVH Europe, are determined by remeasuring its foreign currency-denominated operations as if they had taken place in United States dollars. Gains and losses resulting from this translation are included in the Company's net income. The translation gain of $0.1 million and loss of $0.05 million in 1997 and 1996 respectively, reflects changes in the relative strength of the United States dollar in relation to the Danish krone.

Income Tax Expense (Benefit). The Company's income tax expense decreased to $1.0 million in 1997 from $1.7 million in 1996. The decrease in income taxes was attributable to the utilization of state and federal research and development and investment tax credits. The Company's effective tax rate in 1997 was 31.5% as a percentage of taxable income versus 41.5% in 1996. The Company's effective tax rate is expected to increase in 1998 as research and other tax credits will diminish in future years.

Years Ended December 31, 1996 and 1995

Net Sales. Net sales increased by 82% to $25.7 million in 1996, from $14.2 million in 1995. Product sales amounted to $24.6 million and $10.5 million in 1996 and 1995 respectively. Customer-funded research amounted to $1.1 million and $3.7 million in 1996 and 1995 respectively. Product revenue growth in 1996 resulted primarily from a $5.4 million increase in sales of the Company's military TACNAV systems and an $8.3 million increase in sales of OEM satellite communication products. Product sales increases more than offset an anticipated $2.6 million decrease in customer-funded research in 1996. Decreased customer-funded research reflected the completion of the TACNAV development in 1995. Major customers responsible for 1996 product sales growth included the United States military, various other foreign governments and AMSC.

Cost of Goods Sold. Cost of goods sold included costs of customer-funded research and development of $0.9 million in 1996 and $2.4 million in 1995. Cost of goods sold as a percentage of net sales was 57% and 60% in 1996 and 1995, respectively. Improved cost of sales resulted primarily from a product mix shift away from lower margin, customer-funded research and development sales to higher margin navigation product shipments.

Research and Development Expense. Research and development expense increased to $2.4 million or 90% in 1996, from $1.3 million in 1995. The increase resulted from new product development efforts associated with the Company's long-term initiative to develop smaller, higher-bandwidth, antenna-aiming technology to complement the Company's existing communication products. Total research and development expenditures, including customer-funded product development expenditures included in cost of goods sold, were $3.3 million in 1996 and $3.7 million in 1995. The year over year decline in total research and development is due to the decline in customer-funded research from

1995 levels.

Sales and Marketing Expense. Sales and marketing expenses grew to $3.0 million or 22% in 1996 from $2.5 million in 1995, but decreased as a percentage of net sales to 12% in 1996 from 18% in 1995. The dollar increase is attributable to higher sales commissions associated with higher sales volumes and marketing costs associated with new product introductions. The decrease as a percentage of net sales reflects the leveraging of relatively fixed sales support costs over a larger revenue base.

General and Administrative Expense. General and administrative expense increased to $1.6 million or 54% in 1996, from $1.1 million in 1995, but decreased as a percentage of net sales to 6% from 7% in such years, respectively. The dollar increase is attributable primarily to the added costs associated with becoming a public company, including directors and officers insurance, legal, accounting and consulting fees and increased compensation expense resulting from increases in management incentive payments. The decrease as a percentage of net sales reflects the leveraging of administrative staff support costs over a larger revenue base

Interest Income Interest income reflects the interest earned by investing the proceeds of the April 1996 public offering in Federal short-term obligations

Other (Income) Expense. Other (income) expense was not material in both 1996 and 1995.

Loss (Gain) on Foreign Currency Translation. The results of operations of the Company's foreign subsidiary, KVH Europe, are determined by remeasuring its foreign currency-denominated operations as if they had taken place in United States dollars. Gains and losses resulting from this translation are included in the Company's net income. The translation loss of $50,587 in 1996 and gain of $4,300 in 1995, reflect changes in the strength of the United States dollar in relation to the Danish krone.

Income Tax Expense (Benefit). The Company's income tax expense increased $2.1 million to $1.7 million in 1996, compared with an income tax benefit of approximately $0.4 million in 1995. The increase was attributable to the utilization of the Company's net operating loss carryforwards ("NOLs") from prior years. The Company's effective tax rate in 1996 was 41.5%.

Liquidity and Capital Resources

	Year ended December 31,				
	1997	Change	1996	Change	1995
			(in thousands)		
Cash and cash equivalents	$ 4,758	(32%)	7,006	682%	896
Working capital	$12,410	(1%)	12,570	291%	3,214

The Company financed its operations, technology acquisitions and fixed asset acquisitions of approximately $6.0 million dollars through a combination of funds generated from operations, short-term bank revolving lines of credit and proceeds from its public offering. The Company believes that existing cash balances, short-term marketable securities, amounts available under its revolving credit facility and funds generated from operations will be sufficient to meet anticipated liquidity and working capital requirements for 1998. If the Company determines to expand more rapidly, to broaden or enhance its products more rapidly, to acquire businesses or technologies or to make other significant expenditures to respond to competitive pressures, then the Company may need to raise additional funds.

Other Matters

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") recently issued SFAS No. 130, "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement is effective for fiscal years beginning after December 15, 1997, and requires classification of the financial statements for earlier periods provided for comparative purposes. The effect of the adoption of SFAS No. 130 will not have a material impact on the Company's financial condition, results of operations or cash flows.

The Financial Accounting Standards Board recently issued SFAS No. 131, "Disclosures about Segments of and Enterprise and Related Information". This statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. This statement supercedes SFAS No. 14, "Financial Reporting for Segments of a Business", but retains the requirement to report information about major customers. This statement also amends SFAS No. 94, "Consolidation of Majority-Owned

Subsidiaries". This statement is effective for financial statements for periods beginning after December 31, 1997 and requires that comparative information for earlier years be restated for comparative purposes. The effect of the adoption of SFAS No. 131 will not have a material impact on the Company's financial condition, results of operations or cash flows.

Year 2000

The Company is in the process of selecting a replacement for its existing computer system. The Company has engaged a consulting firm to advise the Company regarding the selection and implementation of a Year 2000 compliant computer system. The estimated cost of consulting services, computer hardware, training and software is expected to be less than $0.5 million dollars. In addition the Company has identified the need for a chief information officer and is actively recruiting to fill this position.

Inflation

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

Market Risk Disclosure

Not applicable.

Forward Looking Statements

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward looking statements that are subject to a number of risks and uncertainties. Among the important factors that could cause actual results to differ materially from those anticipated by the statements made above are the following:

The Company's future growth will depend to a considerable extent on the expansion of sales of its marine antenna-aiming products. To date, the market for mobile satellite communications products has been limited. The Company's first satellite communications product, an antenna-aiming system for use with satellites operated by the International Maritime Satellite Organization ("INMARSAT"), was introduced in late 1993. The Company's TracVision system for mobile reception of direct broadcast satellite television services ("DBS-TV") was introduced in late 1995, and the Tracphone mobile satellite telephone system for use with the SKYCELL voice, fax and data services offered by AMSC was introduced in the second quarter of 1996. The TracVision II a smaller and less expensive version of the TracVision, was introduced in September of 1997 and the TracPhone 50, a smaller, less expensive version of the ASAP line of products, was introduced in September of 1997 as a turnkey system offering airtime services provided by Station 12 with KVH hardware. The Company's business, financial condition and results of operation could be adversely affected if any of the INMARSAT, Station 12 or DBS-TV satellite networks experience operating, financial or regulatory problems, if no significant maritime market develops for these services, or if the Company's products do not achieve significant market acceptance in these emerging markets. Also, if the Company builds inventory in anticipation of potential sales in the marine satellite communications market, the failure of that market to develop could result in inventory obsolescence.

The Company relies upon sales of new products under large contracts to a small number of customers, and the sales cycles for some of the Company's products are long and difficult to predict, resulting in variability of a significant portion of its product revenues. The introduction of new products involves the identification and qualification of new material and component vendors. New products may contain undetected component, hardware, software or mechanical defects or failures when first introduced or may develop defects or failures after commencement of commercial production or shipments. Any such delays, defects or failures could cause loss of goodwill with distributors and with current or potential customers, impair or prevent the market acceptance of the Company's products and result in lost revenue due to cancellations or rescheduling of orders or shipments or to product recalls, returns or discounts. The Company could also incur unexpected and significant costs, including product redesign costs and costs associated with customer support. The Company's products are generally sold with a limited warranty against defects in materials and workmanship, generally for a period of one year but in certain cases for as long as three to five years. If any of the Company's products were found within the warranty period to contain such defects, the Company could be required to repair, replace or refund the purchase price of the defective products. The occurrence of any of the above risks could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company derives a substantial portion of its revenues from the armed forces of the United States and of foreign governments and from contractors that manufacture military land vehicles for such governments. There can be no assurance that such governments or their contractors will continue to purchase the Company's products in similar amounts. Changes in procurement priorities or significant reductions or delays in procurement of the Company's products by the United States or any foreign government would have a material adverse effect on the Company's business, financial condition and results of operations. Generally, the United States government and its contractors and subcontractors may terminate their contracts with the Company for cause or for convenience, upon certain terms and conditions. In many instances, the United States government or its contractors purchase the Company's products on a purchase-order basis, without firm commitments. Moreover, even under firm orders by the United States government or its contractors, funding must nevertheless be appropriated in the budget process in order for the government to complete the contract. The Company experienced a significant growth in military contracts in 1997 and anticipates that these contracts will not reoccur in 1998. As a result, the Company anticipates that product gross profits will decline in 1998 from 1997 levels.

Satellite communications technologies are changing rapidly as new satellite systems are placed into service. The Iridium Low Earth Orbit ("LEO") system is close to completion, offering handheld products that will compete with larger, more costly actively stabilized antenna systems. Although LEO service costs are anticipated to be more costly than Inmarsat services, there is no assurance that this technology or other technologies will not reduce the Inmarsat market share.

Item 8. Financial Statements and Supplementary Data.

The Company's consolidated financial statements and supplementary data, together with the report of KPMG Peat Marwick LLP, independent auditors, are included in Part IV of this Report on Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable

PART III

Item 10. Directors and Executive Officers of the Registrant.

Reference is made to the information set forth in the definitive Proxy Statement relating to the 1997 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission within 120 days after December 31, 1997) (the "Proxy Statement"), under the caption "Directors and Executive Officers".

Item 11. Executive Compensation.

Reference is made to the information set forth in the Proxy Statement under the caption "Renumerature of Executive Officers and Directors".

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Reference is made to the information set forth in the Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management".

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as part of this report: Page

1. Financial Statements:

Report of Independent Accountants	20
Consolidated Balance Sheets as of December 31, 1997, and 1996	21
Consolidated Statements of Income for the years ended December 31, 1997 1996 and 1994	22
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995	23
Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995	24
Notes to Consolidated Financial Statements	25

2. Financial Statement Schedule. See "Independent Auditors Report and Schedule II - Valuation and Qualifying Accounts" included on pages 36 and 37. All other schedules have been omitted since the information is not required to be presented, or because the information required is included in the consolidated financial statements or notes thereto.

(b) Reports on Form 8-K:

Report on Form 8-K was filed on November 14, 1997. The report contains the asset purchase agreement between the Company and Andrew Corporation and a Common Stock Warrant both dated October 30,1997.

(c) Exhibit Number	Description	Page
3.1	Restated Certificate of Incorporation of the Company (1)	
3.5	Amended and Restated By-Laws of the Company	
10.1	1986 Executive Incentive Stock Option Plan (1)	
10.2	Amended and Restated 1995 Incentive Stock Option Plan of the Company (1)	
10.3	1996 Employee Stock Purchase Plan (1)	
10.5	Credit Agreement dated September 8, 1993 between the Company and Fleet National Bank (1)	
10.6	$500,000 Revolving Credit Note dated September 8,1993 between the Company and Fleet National Bank (1)	
10.7	Security Agreement dated September 8, 1993 between the Company and Fleet National Bank (1)	
10.8	Modification to Security Agreement dated May 30, 1994 between the Company and Fleet National Bank (1)	
10.9	Second Modification to Credit Agreement and Revolving Credit Note dated May 30, 1994 between the Company and Fleet National Bank (1)	

Exhibit No.	Description	Page
10.10	Second Modification to Security Agreement dated March 17, 1995 between the Company and Fleet National Bank (1)	
10.11	Third Modification to Credit Agreement and Revolving Credit Note dated March 17, 1995 between the Company and Fleet National Bank (1)	
10.12	Third Modification to Security Agreement dated December 12, 1995 between the Company and Fleet National Bank (1)	
10.13	Fourth Modification to Credit Agreement and Revolving Credit Note dated December 12, 1995 between the Company and Fleet National Bank (1)	
10.14	Lease dated February 27, 1989 between the Company and Middletown Technology Associates IV (1)	
10.17	Registration Rights Agreement dated May 20, 1986 by and among the Company and certain stockholders of the Company (1)	
10.18	Amendment to Registration Rights Agreement dated January 25, 1988, by and among the Company, Fleet Venture Resources, Inc., and Fleet Venture Partners I and certain stockholders of the Company (1)	
10.19	Amendment to Registration Rights Agreement dated October 25, 1988 by and among the Company and certain stockholders of the Company (1)	
10.20	Amendment to Registration Rights Agreement dated July 21, 1989 by and among the Company and certain stockholders of the Company (1)	
10.21	Third Amendment to Registration Rights Agreement dated November 3, 1989 by and among the Company and certain stockholders of the Company (1)	
10.28	Technology License Agreement dated December 22, 1992 between the Company and Etak, Inc. (1)	
10.29	Agreement dated September 28, 1995 between the Company and Thomson Consumer Electronics, Inc. (1)	
10.30	Agreement dated September 28, 1995 between the Company and Thomson Consumer Electronics, Inc. (1)	
10.31	Agreement regarding Technology Affiliates Program between Jet Propulsion Laboratory and the Company (1)	
10.32	Purchase and Sale Agreement dated March 18, 1996, 50 Enterprise Center, Middletown, Rhode Island between the Company and SKW Real Estate Limited Partnership (2)	
10.33	Fifth Modification to Credit Agreement and Revolving Note dated August 8, 1996 between the Company and Fleet National Bank	

10.34	Andrew Corporation Asset Purchase and Warrant Agreement (3)	
11.1	Computation of Earnings per Share (2)	38
21.1	List of Subsidiaries of the Company (1)	
23.1	Consent of KPMG Peat Marwick LLP	39
27.1	Financial Data Schedule	40

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

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934 the registrant has the duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KVH Industries, Inc.

DATE: March 25, 1998

By: /s/ Martin A. Kits van Heyningen

Martin A. Kits van Heyningen
President

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

Signature	Title	Date
/s/ Martin A. Kits van Heyningen Martin A. Kits van Heyningen	President (Chief Executive Officer)	March 25, 1998
/s/ Richard C. Forsyth Richard C. Forsyth	Chief Financial Officer (Principal Financial and Accounting Officer)	March 25, 1998
/s/ Arent H. Kits van Heyningen Arent H. Kits van Heyningen	Chairman of the Board	March 25, 1998
/s/ Robert W. B. Kits van Heyningen Robert W. B. Kits van Heyningen	Director	March 25, 1998
/s/ Stanley K. Honey Stanley K. Honey	Director	March 25, 1998
/s/ James A. Saalfield James A. Saalfield	Director	March 25, 1998
/s/ Werner Trattner Werner Trattner	Director	March 25, 1998

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
KVH Industries, Inc. and Subsidiary:

We have audited the accompanying consolidated balance sheets of KVH Industries, Inc. and subsidiary as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KVH Industries, Inc. and subsidiary at December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island
February 3, 1998

KVH INDUSTRIES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 1997 and 1996

Assets (note 5)	1997	1996
Current assets:		
Cash and cash equivalents	$ 4,757,614	7,005,682
Accounts receivable, less allowance for doubtful accounts of $73,909 in 1997 and $49,955 in 1996 (note 11)	4,338,992	6,130,567
Contract receivables	156,777	29,226
Costs and estimated earnings in excess of billings on uncompleted contracts	406,014	835,720
Inventories (note 3)	4,751,792	3,242,270
Prepaid expenses and other deposits	222,015	179,705
Deferred income taxes (note 9)	387,567	134,552
Total current assets	15,020,771	17,557,722
Property and equipment, net (note 4)	5,974,635	3,881,088
Other assets, less accumulated amortization of $194,837 in 1997 and $168,859 in 1996	731,000	25,978
Deferred income taxes (note 9)	78,535	88,862
	$ 21,804,941	21,553,650

Liabilities and Stockholders' Equity

	1997	1996
Current liabilities:		
Current installments of obligations under capital leases (note 6)	7,278	57,676
Accounts payable	1,618,295	1,031,309
Accrued expenses (note 7)	960,488	1,371,193
Customer deposits (note 11)	25,068	2,527,500
Total current liabilities	2,611,129	4,987,678
Obligations under capital leases, excluding current installments (note 6)	-	3,341
Total liabilities	2,611,129	4,991,019
Stockholders' equity (note 8):		
Preferred stock, $.01 par value. Authorized 1,440,390 shares; none issued.	-	-
Common stock, $.01 par value. Authorized 7,490,582 shares; issued 7,086,046 shares in 1997 and 6,993,246 in 1996	70,860	69,932
Additional paid-in capital	15,298,558	14,884,806
Retained earnings	3,824,394	1,607,893
Total stockholders' equity	19,193,812	16,562,631
Commitment and other information (notes 6 and 10)		
	$ 21,804,941	21,553,650

See accompanying notes to consolidated financial statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
Net sales (note 11)	$ 25,570,347	25,687,495	14,150,147
Cost of goods sold	14,085,463	14,607,584	8,446,728
Gross profit	11,484,884	11,079,911	5,703,419
Operating expenses:			
Research and development	3,175,181	2,430,755	1,278,841
Sales and marketing	3,738,605	3,039,483	2,494,071
General and administrative	1,895,031	1,624,270	1,058,073
Operating profit	2,676,067	3,985,403	872,434
Other deductions (income):			
Interest income	(336,157)	(293,494)	(23,761)
Interest expense	8,893	15,938	51,507
Other expense (income)	(95,083)	14,303	20,385
Loss (gain) on foreign currency translation	(138,272)	50,087	(4,300)
Income before income tax expense (benefit)	3,236,686	4,198,569	828,603
Income tax expense (benefit) (note 9)	1,020,185	1,742,538	(364,995)
Net income	$ 2,216,501	2,456,031	1,193,598
Per share information (notes 8 and 13):			
Net income per common share - basic	$ 0.31	0.39	0.25
Net income per common share - diluted	$ 0.30	0.35	0.21
Weighted average number of shares outstanding:			
Basic	7,049,125	6,370,272	4,862,450
Diluted	7,497,695	7,055,309	5,710,177

See accompanying notes to consolidated financial statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1997, 1996 and 1995

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
Balances at December 31, 1994	$ 12,982	16,006	4,463,941	(2,041,736)	2,451,193
Net income	-	-	-	1,193,598	1,193,598
Stock option transaction	-	154	9,104	-	9,258
Balances at December 31, 1995	12,982	16,160	4,473,045	(848,138)	3,654,049
Net income	-	-	-	2,456,031	2,456,031
Exercise of stock options and warrants	-	3,274	457,203	-	460,477
Initial public offering of common stock, net of issuance costs of $1,736,555 (note 8)	-	18,000	9,945,445	-	9,963,445
Conversion of 1,298,182 shares of preferred stock to 3,245,500 shares of common stock	(12,982)	32,455	(19,473)	-	-
Issuance of common stock under benefit plans	-	43	28,586	-	28,629
Balances at December 31, 1996	-	69,932	14,884,806	1,607,893	16,562,631
Net income	-	-	-	2,216,501	2,216,501
Issuance of common stock under benefit plan	-	127	67,404	-	67,531
Exercise of stock options	-	801	151,913	-	152,714
Issuance of warrants (notes 2 and 8)	-	-	194,435	-	194,435
Balances at December 31, 1997	$ -	70,860	15,298,558	3,824,394	19,193,812

See accompanying notes to consolidated financial statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
Cash flows from operating activities:			
Net income	$ 2,216,501	2,456,031	1,193,598
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	797,761	285,049	143,080
Provision for doubtful accounts	284	(45,000)	39,816
Provision for deferred taxes	(242,688)	315,381	(376,395)
Decrease (increase) in accounts and contract receivables	1,827,202	(2,932,821)	(2,220,826)
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts	429,706	80,474	(53,698)
Increase in inventories	(649,213)	(1,489,098)	(819,657)
Increase in prepaid expenses and other deposits	(42,310)	(23,030)	(84,253)
Increase in accounts payable	586,986	72,802	551,586
(Decrease) increase in accrued expenses	(554,922)	1,035,297	162,819
(Decrease) increase in customer deposits	(2,502,432)	(342,095)	2,835,600
Net cash provided by (used in) operating activities	1,866,875	(587,010)	1,371,670
Cash flows from investing activities:			
Acquisition (note 2)	(1,946,026)	-	-
Capital expenditures	(2,335,423)	(3,703,327)	(210,801)
Net cash used in investing activities	(4,281,449)	(3,703,327)	(210,801)
Cash flows from financing activities:			
Repayments on note payable to bank	-	-	(455,278)
Repayments of obligations under capital lease	(53,739)	(52,209)	(10,610)
Stock option and benefit plan transactions	220,245	489,106	9,258
Proceeds from initial public offering (note 8)	-	9,963,445	-
Net cash provided by (used in) financing activities	166,506	10,400,342	(456,630)
Net increase (decrease) in cash and cash equivalents	(2,248,068)	6,110,005	704,239
Cash and cash equivalents at beginning of year	7,005,682	895,677	191,438
Cash and cash equivalents at end of year	$ 4,757,614	7,005,682	895,677
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 8,589	15,938	51,507
Cash paid during the year for income taxes	$ 1,872,049	20,250	250

See accompanying notes to consolidated financial statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1997, 1996 and 1995

(1) Summary of Significant Accounting Policies

(a) Description of Business

KVH Industries, Inc. (the "Company") develops, manufactures and markets proprietary fiber optic, autocalibration and sensor technologies to produce navigation and mobile satellite communications systems for commercial, military and marine applications.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of KVH Industries, Inc. and its wholly-owned subsidiary, KVH Europe A/S ("KVH Europe"). All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity, at the purchase date, of three months or less to be cash equivalents.

(d) Revenue Recognition

Revenue is recognized when a product is shipped and services are performed.

Revenues on long-term contracts are recognized using the percentage of completion method. Under this method, income is recognized as work progresses on the contracts. The percentage of work completed is determined principally by comparing the accumulated costs incurred to date with management's current estimate of total costs to be incurred at contract completion. On certain contracts where the delivery of equipment is separable from development and other aspects of the contract, the Company segments the contract and recognizes revenue on each segment individually. Revisions of costs and income estimates are reflected in the period in which the facts that require the revisions become known. If estimated total costs on a contract indicate a loss, the entire amount of the estimated loss is provided for currently.

(e) Inventories

Inventories of finished goods for sale and raw materials are stated at the lower of cost or market using the first-in first-out costing method. Work in process is valued at production cost represented by material, labor and overhead, and is not recorded in excess of net realizable values.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the respective assets. The principal lives, in years, used in determining the depreciation rates of various assets are: leasehold improvements, ten years; machinery and equipment, five years; office and computer equipment, five to seven years and motor vehicles, four years. Amortization of property and equipment under capital lease is provided using the straight-line method over the lease terms.

(g) Other Assets

Other assets consist of patents, capitalized costs of workforce resulting from an acquisition and the organization costs incurred to KVH Europe. These costs are being amortized on a straight-line basis over period ranging from five year to twelve years. The Company continually reviews intangible assets to assess recoverability from estimated future results of operations and estimated future cash flows.

(h) Progress Payments

Progress payments received from customers are offset against inventories associated with the contracts for which the payments were received. Under contractual arrangements by which progress payments are received from the United States Government, the United States Government has a lien on the inventories identified with related contracts.

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(j) Research and Development

Expenditures for research and development, including customer-funded research and development, are expensed in the year incurred. Revenue from customer-funded research and development is included in net sales, and the related product development costs are included in cost of goods sold. Revenues from customer-funded research and development totaled approximately $957,000, $1,050,000 and $3,200,000, respectively, in 1997, 1996 and 1995, and related costs included in cost of goods sold totaled approximately $630,000, $869,000 and $2,445,000 in such years, respectively.

(k) Foreign Currency Transaction

The financial statements of the Company's foreign subsidiary are re-measured into the United States dollar functional currency for consolidation and reporting purposes. Current rates of exchange are used to re-measure monetary assets and liabilities and historical rates of exchange are used for nonmonetary assets and related elements of expense. Revenue and other expense elements are re-measured at rates, which approximate the rates in effect on the transaction dates. Gains and losses resulting from this re-measurement process are recognized currently in the consolidated statements of income.

(l) Stock Option Plan

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived to be Disposed of, on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

(o) Net Income per Common Share

During 1997 the Company adopted the provisions of SFAS No. 128, Earnings Per Share. Under the provisions of SFAS 128, basic earnings per share replaces primary earnings per share and the dilutive effect of stock options and warrants are excluded from the calculation. Fully diluted earnings per share are replaced by diluted earnings per share and include the dilutive effect of stock options and warrants, using the treasury stock method. All prior period earnings per share data have been restated to conform to the requirements of SFAS 128.

Areconciliation of the weighted average number of shares outstanding used in the computation of the basic and diluted earnings per share for the three years ended December 31, 1997 is as follows:

	1997	1996	1995
Weighted average shares (basic)	7,049,125	6,370,272	4,862,450
Effect of dilutive stock options	448,570	685,037	847,727
Weighted average shares (diluted)	7,497,695	7,055,309	5,710,177

The net income used in the calculation for basic and diluted earnings per share calculations agrees with the net income appearing in the financial statements.

(p) Fair Value of Financial Instruments

The carrying amounts of accounts receivable, contracts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, accounts payable, accrued expenses and obligations under capital leases approximate fair value due to the short maturity of these instruments.

(2) Acquisition

OnOctober 30, 1997 the Company purchased certain operating assets and assumed certain liabilities of the Sensor Products Group of the Andrew Corporation for approximately $1.9 million of cash (including acquisition costs) and warrants to purchase the Company's common stock, valued at approximately $194,000. The assets acquired will provide the Company with the ability to produce fiber optic rate sensors that will advance the Company's existing product performance accuracy and range of operation. The acquisition has been accounted for as a purchase. The allocation of the purchase price resulted in intangibles, primarily patents and workforce, of approximately $731,000 which are being amortized on a straight-line basis over periods of 5 - 12 years.

(3) Inventories

Inventories at December 31, 1997 and 1996 consist of the following:

	1997	1996
Raw materials	$3,242,580	1,887,634
Work in process	356,211	714,346
Finished goods	1,153,001	640,290
	$4,751,792	3,242,270

Project inventories totaling $39,408 and $385,748, respectively, in 1997 and 1996 have been offset against related progress payments and included as a component of costs and estimated earnings in excess of billings on uncompleted contracts.

(4) Property and Equipment

Property and equipment, net, at December 31, 1997 and 1996 consist of the following:

	1997	1996
Land	$ 806,774	806,774
Building and improvements	3,181,986	1,801,062
Leasehold improvements	--	39,543
Machinery and equipment	1,838,603	1,667,618
Office and computer equipment	2,455,057	1,155,750
Motor vehicles	92,348	68,949
	8,374,768	5,539,696
Less accumulated depreciation	2,400,133	1,658,608
	$5,974,635	3,881,088

Depreciation for the years ended December 31, 1997, 1996 and 1995 amounted to $771,783, $246,081 and $104,113, respectively.

(5) Notes Payable to Bank

OnAugust 10, 1993, the Company entered into a Secured Revolving Line of Credit Agreement (the "Revolving Credit Agreement") with Fleet National Bank which, as amended through August 8, 1996, provides for borrowings from time to time of up to $2,500,000 at the bank's prime rate plus 1.25%. Borrowings are payable upon demand by the bank or the expiration of the Revolving Credit Agreement, which expires June 30, 1998. Borrowings are secured by substantially all of the assets of the Company, except for land, building and improvements. As of December 31, 1997 and 1996, the Company had no borrowings outstanding. The Revolving Credit Agreement includes financial and other restrictive covenants relating to the maintenance of or attainment of certain financial criteria and prohibits the Company from paying cash dividends. The company is in compliance with all covenants related to the loan agreement.

(6) Leases

The Company has certain capital and operating leases for facilities, automobiles, and various equipment. The following is a summary of future minimum payments under capital leases and under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1997:

Year ending December 31	Capitalized Leases	Operating Leases
1998	$ 7,284	105,680
1999	-	58,500
Total minimum lease payments	7,284	164,180
Imputed interest	(6)	
Present value of minimum capital lease payment	$ 7,278	

Total rent expense incurred under operating leases for the years ended December 31, 1997, 1996 and 1995 amounted to, $433,908, $435,124 and $412,085, respectively. In 1997 the Company reduced the amount of square feet under a facility lease from 30,000 to 6,000. The Company paid $210,000 in the fourth quarter of 1997 to modify the lease agreement. As a consequence of reducing the leased square footage the Company's lease liability decreases to $78,000 and $56,000 in 1998 and 1999 respectively.

(7) Accrued Expenses

Accrued expenses for the period ended December 31, 1997 and 1996 consist of the following:

	1997	1996
Accrued payroll, bonus and other related expenses payable	$ 709,544	529,471
Federal income tax payable	-	478,567
State income tax payable	57,601	180,148
Professional fees	162,133	106,776
Other	31,210	76,231
	$ 960,488	1,371,193

(8) Stockholders Equity

(a) Sale of Common Stock

OnMarch 28, 1996, the Company's registration statement for an initial public offering of common stock was declared effective. An aggregate of 1,800,000 shares of common stock were issued by the Company on April 8, 1996 at an initial public offering of $6.50 per share that resulted in approximately $9.9 million in net proceeds.

(b) Employee's Stock Options and Warrants

The Company has a 1986 Executive Incentive Stock Option Plan, a 1995 Incentive Stock Option Plan, and a 1996 Incentive and Non-Qualified Stock Option Plan (the "Plans").

The Company has reserved 915,000 shares of its common stock for issuance upon exercise of options granted or to be granted under the Plans. These options generally vest in equal annual amounts over four years beginning on the date of the grant. The Plans provide that options be granted at exercise prices not less than market value on the date the option is granted and options are adjusted for such changes as stock splits and stock dividends. No options are exercisable for periods of more than ten years after date of grant.

The per share weighted-average fair value of stock options granted during 1997, 1996 and 1995 was $4.12, $1.80 and $0.28 on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: 1997 - expected dividend yield 0%, risk-free interest rate 5.36%, expected volatility of 82.71% and expected life of 2.56 - 3 years; 1996 - expected dividend yield 0%, risk-free interest rate of 6.4%, expected volatility rate of 3% and an expected life of 4 years; 1995 expected dividend yield 0%, risk-free interest rate of 6.1%, expected volatility rate of 3% and an expected life of 2 years.

The Company applies APB Opinion No. 25 in accounting for its Plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

		1997	1996	1995
Net income	As reported	$ 2,216,501	2,456,031	1,193,598
	Pro forma	1,942,467	2,109,142	1,143,211
Net income per common	As reported	$ 0.30	0.35	0.21
share-diluted	Pro forma	$ 0.26	0.30	0.20

Pro forma net income reflects only options granted in 1997, 1996 and 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of 4 years and compensation cost for options granted prior to January 1, 1995, is not considered.

(Continued)

At December 31, 1997, warrants, issued in conjunction with an acquisition of the Sensor Products Group of the Andrew Corporation (note 2), to purchase 50,000 common shares were outstanding. Each warrant allows the holder thereof to acquire one share of common stock for a purchase price of $8.00. The warrants are exercisable from October 30,1997 through October 30, 2002.

The changes in outstanding employee stock options for the three years ended December 31, 1997, 1996 and 1995 is as follows:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 31, 1994	469,884	$ 0.60
Granted	796,425	1.22
Exercised	(15,430)	0.60
Forfeited	-	-
Expired and canceled	(185,740)	1.60
Outstanding at December 31, 1995	1,065,139	1.11
Granted	362,000	7.91
Exercised	(327,400)	0.75
Forfeited	(66,080)	0.60
Expired and canceled	(12,332)	5.72
Outstanding at December 31, 1996	1,021,327	3.83
Granted	66,250	7.13
Exercised	(86,728)	0.76
Forfeited	-	-
Expired and canceled	(70,446)	5.93
Outstanding at December 31, 1997	930,403	$ 4.28

The following table summarizes information about employee stock options at December 31, 1997:

Range of Exercise Prices	Number Outstanding 12/31/97	Average Remaining Life	Weighted-Average Exercise Price	Number Exercisable As of 12/31/97	Weighted-Average Exercise Price
$0.60 - $0.60	116,165	2.53	$0.60	95,962	$0.60
$1.70 - $1.70	400,000	2.82	$1.70	306,250	$1.70
$5.50 - $7.98	174,238	4.05	$7.17	96,364	$7.03
$8.00 - $9.13	240,000	3.49	$8.26	148,000	$8.42
$0.60 - $9.13	930,403	3.19	$4.28	646,576	$3.87

(Continued)

AtDecember 31, 1997, 1996 and 1995 the number of options exercisable was 646,576, 983,828 and 889,049, respectively and the weighted average exercise price of those options was $3.87, $3.83 and $1.11 respectively.

(c) Employee's Stock Purchase Plan

The Employee Stock Purchase Plan (the "ESPP") covers substantially all employees in the United States and Denmark. The ESPP allows eligible employees the right to purchase common stock on a semi-annual basis at the lower of 85% of the market price at the beginning or end of each six-month offering period. During 1997 and 1996, 12,700 and 4,351 shares, respectively, were issued under this plan. As of December 31, 1997, 132,949 shares were reserved for future issuance under the plan.

(9) Income Taxes

Income tax expense (benefit) for the years ended December 31, 1997, 1996 and 1995 are presented below.

	Current	Deferred	Total
1997:			
Federal	$ 1,037,954	(212,586)	825,368
State	157,997	(30,102)	127,895
Foreign	66,922	--	66,922
	$ 1,262,873	(242,688)	1,020,185
1996:			
Federal	$ 1,062,392	246,986	1,309,378
State	285,148	68,395	353,543
Foreign	79,617	--	79,617
	$ 1,427,157	315,381	1,742,538
1995:			
Federal	$ 11,400	(293,253)	(281,853)
State	--	(83,142)	(83,142)
Foreign	--	--	--
	$ 11,400	(376,395)	(364,995)

(Continued)

The actual tax benefit differs from the "expected" tax expense computed by applying the U.S. Federal corporate tax rate of 34% to income before income taxes as follows:

	1997	1996	1995
Computed "expected" tax expense	$ 1,100,473	1,427,513	281,725
Increase (decrease) in income taxes resulting from:			
Change in beginning of the year balance of the valuation allowance for deferred tax assets allocated to income tax expense	-	-	(661,854)
Non-deductible expenses	26,262	25,025	-
Utilization of tax credits	(215,411)	-	-
State income tax expense, net of Federal income tax benefit	84,411	233,674	12,562
Other	24,450	56,326	2,572
Net income tax expense (benefit)	$ 1,020,185	1,742,538	(364,995)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at December 31, 1997 and 1996 are as follows:

	1997	1996
Accounts receivable, due to allowance for doubtful accounts	$ 24,126	25,672
Inventories, due to valuation reserve	204,451	42,197
Inventories, due to differences in costing for tax purposes	4,334	3,050
Inventories, due to unrealized gain	130,416	42,627
Property, plant and equipment, due to differences in depreciation	5,812	25,841
Accrued warranty costs	96,963	84,027
Deferred tax asset	$ 466,102	223,414

The recognition of the deferred tax asset of $466,102 is supported by the Company's expectation that it will have future taxable income in 1998 and beyond in order to realize the benefit of these future tax deductions.

(10) 401(k) Profit Sharing Plan

The Company has a 401(k) Profit Sharing Plan (the Plan) for all eligible employees. All employees with a minimum of one year of service who have attained age 21 are eligible to participate. Participants can contribute up to 15% of total compensation, subject to the annual IRS dollar limitation. Participants become fully vested in Company contributions after 7 years of continuous service. Company contributions to the plan are discretionary. During 1997, 1996 and 1995, the Company did not make any contributions to the Plan.

(Continued)

(11) Business and Credit Concentrations

InSeptember 1995 the Company entered into an agreement with AMSC for the design and manufacture of mobile satellite telephone systems for use at sea. The agreement provides for AMSC to purchase 5,000 systems, for a total contract value of $10.2 million. The Company received an advance from AMSC totaling $2.5 million to be applied to the purchase price of the last of the systems covered by the agreement. The Company shipped approximately 70% of the order in 1996 and the remainder in 1997.

The Company derives a substantial portion of its revenues from the armed forces of the United States and foreign governments. The Company estimates that approximately 52%, 37% and 52%, of the Company's revenues were derived from United States and foreign military and defense related sources in fiscal 1997, 1996 and 1995, respectively. Changes in procurement priorities or significant reductions or delays in procurement of the Company's products by the United States or any foreign government could have a material adverse effect on the Company's business, financial condition and results of operation. A significant portion of the Company's revenues are also derived from customers outside the U.S. Revenues from foreign customers accounted for 31%, 42% and 51% of total revenues in fiscal 1997, 1996, 1995, respectively.

Historically, a significant portion of the Company's sales in any particular period has been attributable to sales to a limited number of customers. Sales to AMSC accounted for approximately 12% and 27% of net sales in 1997 and 1996 respectively. Sales to the United States Army Tank and Automotive Command accounted for approximately 28% of net sales in 1997. Sales to the Government of Sweden accounted for approximately 13% and 14% of the Company's net sales in 1997 and 1996 respectively. Sales to General Motors Corporation of Canada accounted for approximately 14% and 13%, of the Company's net sales in 1996 and 1995 respectively.

(12) Segment Reporting

(a) Geographic Information

The Company's operations are located in the United States and Europe. Inter-region sales are not significant to total revenue of any geographic region. Information about the Company's operations in different geographic regions for each of the three-year periods ended December 31, 1997, 1996 and 1995 is as follows:

	1997	1996	1995
Net revenues:			
United States	$ 23,258,557	23,809,807	12,609,029
Europe	2,311,790	1,877,688	1,541,118
	$ 25,570,347	25,687,495	14,150,147
Operating profit:			
United States	$ 2,612,003	3,790,663	720,669
Europe	64,064	194,740	151,765
	$ 2,676,067	3,985,403	872,434

(Continued)

	1997	1996	1995
Identifiable assets:			
United States	$ 21,003,039	20,941,403	7,267,604
Europe	801,902	612,247	663,669
	$ 21,804,941	21,553,650	7,931,273

(b) Export Sale Information
Export sales from the Company's United States operations to unaffiliated customers, located primarily in Europe and Canada, totaled, $7,813,138, $9,051,291 and $5,712,658, respectively, in 1997, 1996 and 1995.

(13) Selected Quarterly Financial Results (Unaudited) Financial information for interim periods was as follows:

1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 5,916,329	5,770,505	7,025,976	6,857,537
Gross profit	2,737,300	2,519,762	3,546,897	2,680,925
Net income	603,989	402,167	1,018,799	191,546
Earnings per share (a):				
Basic	$ 0.09	0.06	0.14	0.03
Diluted	0.08	0.05	0.14	0.03
1996				
Net sales	$ 4,780,659	5,113,602	7,147,270	8,645,964
Gross profit	2,088,270	2,284,354	2,918,469	3,788,818
Net income	187,568	320,099	920,513	1,027,851
Earnings per share (a):				
Basic	$ 0.04	0.05	0.13	0.15
Diluted	$ 0.03	0.04	0.12	0.14
1995				
Net sales	$ 2,767,878	3,080,851	3,278,670	5,022,748
Gross profit	1,230,492	1,188,118	1,353,736	1,931,073
Net income	351,084	210,313	174,670	457,531
Earnings per share (a):				
Basic	$ 0.07	0.04	0.04	0.09
Diluted	$ 0.06	0.04	0.03	0.08

(a) Earnings per share are computed independently for each of the quarters. Therefore, the earnings per share for the four quarters may not equal the annual earnings per share data.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
KVH Industries, Inc. and Subsidiary:

Under the date of February 3, 1998, we reported on the consolidated balance sheets of KVH Industries, Inc., and subsidiary as of December 31, 1997 and December 31, 1996 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 31, 1997, as contained in the 1997 annual report on Form 10-K for the year 1997. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule listed in Item 14(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island
February 3, 1998

Schedule II

KVH Industries, Inc.

Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Additions Charged to Cost or Expense	Deductions from Reserve	Balance at End of Year
	(in thousands)			
Deducted from accounts receivable for doubtful accounts				
1997	50	24	-	74
1996	95	-	(45)	50
1995	55	40	-	95
Deducted from inventory for estimated obsolescence				
1997	105	556	(150)	511
1996	60	60	(15)	105
1995	54	6	-	60

Exhibit 11.1

KVH INDUSTRIES, INC.
COMPUTATION OF NET EARNINGS PER SHARE
(in thousands, except per share data)

	Year Ended December 31,		
	1996	1996	1995
Calculation of earnings per share - basic			
Net income	$2,217	2,456	1,194
Shares:			
Common stock outstanding	7,049	6,371	4,862
Net income per common share - basic	$ 0.31	0.39	0.25
Calculation of earnings per share - diluted			
Net income	$ 2,217	2,456	1,194
Shares:			
Common stock outstanding , beginning of period	6,993	1,601	1,601
Conversion of preferred stock	-	3,260	-
Weighted average common stock issued during the period	52	1,509	15
Assumed conversion of convertible preferred stock	-	-	3,245
Assumed exercise of common stock options	561	852	1,015
Less:			
Purchase of common stock under the treasury stock method	(152)	(167)	(189)
Weighted average number of common and common stock equivalent shares outstanding	7,497	7,055	5,710
Net income per common share - diluted	$ 0.30	0.35	0.21

Exhibit 23.1

ACCOUNTANTS' CONSENT

The Board of Directors
KVH Industries, Inc. and Subsidiary:

We consent to incorporation, by reference in the Registration Statement No. 333-01258 on Form S-8, of our report dated February 3, 1998, relating to the consolidated balance sheets of KVH Industries, Inc., and subsidiary as of December 31, 1997 and December 1996 and the related consolidated statements of income, stockholders' equity, and cash flows and related schedule for each of the fiscal years in the three-year period ended December 31, 1997, which report on the consolidated financial statements included herein and which report on the related schedule is included in the Annual Report on Form 10-K of KVH Industries, Inc., for the fiscal year ended December 31, 1997.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island
March 24, 1998

KVH Industries, Inc. Financial Data Schedule December 31, 1997

Year
DEC-31-1997
DEC-31-1997
4,757,614
0
4,412,901
73,909
4,751,792
15,020,771
8,374,768
2,400,133
21,804,941
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0
0
0
70,860
19,122,952
21,804,941
25,570,347
25,570,347
14,085,463
14,085,463
8,808,817
0
8,589
3,236,686
1,020,185
1,020,185
0
0
0
1,020,185
.31
.30