KVH INDUSTRIES INC \DE\
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2010

OR

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

For the transition period from ______ to ______

Commission File Number 0-28082

KVH Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

50 Enterprise Center, Middletown, RI 02842

(Address of Principal Executive Offices) (Zip Code)

(401) 847-3327

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

Date	Class	Outstanding shares
November 3, 2010	Common Stock, par value $0.01 per share	15,192,149

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Form 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts, unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,208	$ 5,871
Marketable securities	30,054	35,433
Accounts receivable, net of allowance for doubtful accounts of approximately $661 as of September 30, 2010 and $844 as of December 31, 2009	17,154	15,803
Inventories	15,193	13,387
Prepaid expenses and other assets	2,797	1,602
Costs and estimated earnings in excess of billings on uncompleted contracts	153	13
Deferred income taxes	1,091	17
Total current assets	73,650	72,126
Property and equipment, less accumulated depreciation of $22,533 as of September 30, 2010 and $21,503 as of December 31, 2009	23,237	15,777
Intangibles assets, less accumulated amortization of $17 as of September 30, 2010 and $0 as of December 31, 2009	2,381	
Goodwill	4,053	
Other non-current assets	6,024	6,509
Deferred income taxes	5,581	3,334
Total assets	**$ 114,926**	**$ 97,746**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 5,339	$ 3,611
Accrued compensation and employee-related expenses	3,831	3,577
Accrued other	4,749	1,667
Accrued product warranty costs	957	1,084
Accrued professional services	395	419
Deferred revenue	826	961
Current portion of long-term debt	122	117
Total current liabilities	16,219	11,436
Other long-term liabilities	766	902
Long-term debt excluding current portion	3,715	3,808

Total liabilities	**20,700**	**16,146**
Commitments and contingencies (notes 3 and 10)		
Stockholders equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; none issued		
Common stock, $0.01 par value. Authorized 30,000,000 shares, 15,740,948 and 15,355,602 shares issued at September 30, 2010 and December 31, 2009; 14,539,624 and 14,154,278 shares outstanding at September 30, 2010 and December 31, 2009, respectively	158	154
Additional paid-in capital	101,009	96,274
Accumulated earnings (deficit)	2,622	(5,406)
Accumulated other comprehensive (loss) income	(92)	49
Less: treasury stock at cost, common stock, 1,201,324 shares as of September 30, 2010 and December 31, 2009	(9,471)	(9,471)
Total stockholders equity	**94,226**	**81,600**
Total liabilities and stockholders equity	**$ 114,926**	**$ 97,746**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts, unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Sales:				
Product	$ 21,598	$ 18,620	$ 70,010	$ 52,314
Service	6,165	4,023	15,231	10,461
Net sales	27,763	22,643	85,241	62,775
Costs and expenses:				
Costs of product sales	11,688	10,663	38,498	33,139
Costs of service sales	4,537	3,044	11,907	7,422
Sales, marketing and support	4,380	4,241	13,615	12,371
Research and development	2,934	2,292	8,017	6,265
General and administrative	2,955	1,943	7,635	5,723
Total costs and expenses	26,494	22,183	79,672	64,920
Income (loss) from operations	1,269	460	5,569	(2,145)
Interest income	70	74	253	279
Interest expense	61	26	143	63
Other (expense) income, net	(15)	(29)	48	(21)
Income (loss) before income tax expense (benefit)	1,263	479	5,727	(1,950)
Income tax expense (benefit)	626	94	(2,301)	30
Net income (loss)	**$ 637**	**$ 385**	**$ 8,028**	**$ (1,980)**
Per share information:				
Net income (loss) per share				
Basic	**$ 0.04**	**$ 0.03**	**$ 0.56**	**$ (0.14)**
Diluted	**$ 0.04**	**$ 0.03**	**$ 0.54**	**$ (0.14)**
Number of shares used in per share calculation:				
Basic	**14,483**	**13,978**	**14,360**	**13,981**
Diluted	**14,854**	**14,241**	**14,786**	**13,981**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Nine months ended September 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 8,028	$ (1,980)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,746	1,872
Compensation expense related to awards and employee stock purchase plan	1,841	1,248
Provision for doubtful accounts	222	612
Deferred income taxes	(3,321)	
Gain on sale of fixed assets		(10)
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	(1,573)	1,006
Costs and estimated earnings in excess of billings on uncompleted contracts	(140)	(32)
Inventories	(1,806)	722
Prepaid expenses and other assets	(1,195)	(541)
Other non-current assets	485	(1,687)
Accounts payable	1,728	(1,775)
Accrued expenses	2,723	1,603
Deferred revenue	(135)	500
Other long-term liabilities	(136)	82
Net cash provided by operating activities	**9,467**	**1,620**
Cash flows from investing activities:		
Capital expenditures	(10,189)	(4,168)
Net cash paid for business acquired	(6,451)	
Proceeds from sale of property and equipment		29
Purchases of marketable securities	(24,104)	(32,214)
Maturities and sales of marketable securities	29,447	32,447
Net cash used in investing activities	**(11,297)**	**(3,906)**
Cash flows from financing activities:		
Payment of employee restricted stock withholdings	(482)	(47)
Proceeds from stock options exercised and employee stock purchase plan	3,408	135
Repurchase of common stock		(601)
Repayments of mortgage loan	(88)	(2,073)
Payment of stock registration fee	(7)	(4)
Borrowings from mortgage loan		4,000
Net cash provided by financing activities	**2,831**	**1,410**
Effect of foreign currency exchange rate	336	
Net change in cash and cash equivalents	**1,337**	**(876)**
Cash and cash equivalents at beginning of period	**5,871**	**4,979**

Cash and cash equivalents at end of period	**$ 7,208**	**$ 4,103**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited, all amounts in thousands except share and per share amounts)

(1) Description of Business

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

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

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

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

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

(2) Basis of Presentation

The accompanying condensed consolidated financial statements of KVH Industries, Inc. and its wholly owned subsidiaries, KVH Europe A/S, KVH Industries Asia Pte. Ltd., KVH South America Comunicacao Por Satelite Ltda. and Virtek Communication, (collectively, KVH or the Company), have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission regarding interim financial reporting. The Company has evaluated all subsequent events through the date of this filing. Given that KVH Europe A/S, KVH Industries Asia Pte. Ltd. and KVH South America Comunicacao Por Satelite Ltda. operate as the Company s European, Asian and Brazilian international distributors, all of their operating expenses are reflected within sales, marketing and support within the accompanying condensed consolidated statements of operations. Virtek Communication, a subsidiary of KVH Europe A/S, develops and distributes middleware known as CommBox , which is to be integrated into the Company s satellite communications products and services. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have not been audited by our independent registered public accounting firm and include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for the periods presented. These condensed consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 9, 2010 with the Securities and Exchange Commission. The results for the three and nine months ended September 30, 2010 are not necessarily indicative of operating results for the remainder of the year.

(3) Significant Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Significant estimates and assumptions by management affect the Company s revenue recognition, valuation of accounts receivable, valuation of inventory, deferred tax assets, certain accrued expenses and accounting for contingencies.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

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

(4) Stock-Based Compensation

The Company recognizes stock-based compensation in accordance with the provisions of Accounting Standards Codification (ASC) 718, *Compensation-Stock Based Compensation*. Stock-based compensation expense was $718 and $452 for the three months ended September 30, 2010 and September 30, 2009, respectively and $1,841 and $1,248 for the nine months ended September 30, 2010 and September 30, 2009, respectively. As of September 30, 2010, there was $341 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 1.70 years. As of September 30, 2010, there was $4,442 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.63 years.

The Company granted 110,000 and 285,000 restricted stock awards to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three and nine months ended September 30, 2010, respectively. The restricted stock awards vest ratably over four years from the date of grant subject to the recipient remaining employed through the applicable vesting dates. Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market closing price of the Company s common stock. Such value is recognized as expense over the vesting period of the award, net of estimated forfeitures.

A total of 75,000 of the restricted stock awards granted during the nine months ended September 30, 2010 were performance-based awards granted to executives. Of these restricted stock awards, 37,500 will vest ratably over four years from date of grant approval provided that the Company achieves certain fiber optic gyro sales objectives in 2010 and the remaining 37,500 will vest ratably over four years from date of grant approval provided that the Company achieves certain mini-VSAT sales objectives in 2010. As of September 30, 2010, the Company believes it is probable it will achieve its sales objectives for both the mini-VSAT and the fiber optic gyro businesses for the year ending December 31, 2010. As a result, the Company recorded expense in the three and nine months ended September 30, 2010 related to the performance-based restricted stock awards, the amount of which was not material.

(5) Net Income (Loss) per Common Share

Basic net income (loss) per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury stock accounting method. Common stock equivalents related to options and restricted stock awards for 90,750 and related to options for 15,750 shares of common stock for the three and nine months ended September 30, 2010, respectively have been excluded from the fully diluted calculation of net income (loss) per share, as inclusion would be anti-dilutive. Common stock equivalents related to options and restricted stock awards for 1,027,603 and 1,178,701 shares of common stock for the three and nine months ended September 30, 2009, respectively, have been excluded from the fully diluted calculation of net income (loss) per share, as inclusion would be anti-dilutive.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Weighted average common shares outstanding basic	14,482,585	13,978,456	14,360,407	13,980,727

Dilutive common shares issuable in connection with stock plans	371,526	262,056	425,480	
Weighted average common shares outstanding diluted	14,854,111	14,240,512	14,785,887	13,980,727

(6) Inventories

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of September 30, 2010 and December 31, 2009 include the costs of material, labor, and factory overhead. Components of inventories consist of the following:

	September 30, 2010	December 31, 2009
Raw materials	$ 10,041	$ 9,121
Work in process	1,419	1,118
Finished goods	3,733	3,148
	$ 15,193	$ 13,387

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

(7) Comprehensive Income (Loss)

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$ 637	$ 385	$ 8,028	$ (1,980)
Unrealized gain (loss) on available-for-sale securities	1	13	(36)	(48)
Currency translation adjustment gain	336		336	
Unrealized loss on derivatives	(127)		(441)	
Total comprehensive income (loss)	$ 847	$ 398	$ 7,887	$ (2,028)

(8) Product Warranty

The Company s products carry limited warranties that range from one to three years and vary by product. The warranty period begins on the date of retail purchase by the original purchaser. The Company accrues estimated product warranty costs at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated. Factors that affect the Company s warranty liability include the number of units sold, historical and anticipated rates of warranty repairs and the estimated cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying statements of operations. As of September 30, 2010 and December 31, 2009, the Company had accrued product warranty costs of $957 and $1,084, respectively. The following table summarizes product warranty activity for the nine-month periods presented:

	Nine months ended September 30,	
	2010	2009
Beginning balance	$ 1,084	$ 1,139
Charges to expense	224	598
Costs incurred	(351)	(588)
Ending balance	$ 957	$ 1,149

(9) Segment Reporting

Under common operational management, the Company designs, develops, manufactures and markets its navigation, guidance and stabilization and mobile communication products for use in a wide variety of applications. Products are generally sold directly to third-party consumer electronic dealers and retailers, original equipment manufacturers, government contractors or to U.S. and other foreign government agencies.

Primarily, sales originating in the Americas consist of sales within the United States and Canada and, to a lesser extent, Mexico and some Latin and South American countries. The Americas sales also include all guidance and stabilization product sales throughout the world. Sales originating from the Company s European and Asian subsidiaries principally consist of sales into all European countries, both inside and outside the European Union, as well as Africa, Asia/Pacific, the Middle East and India.

The Company operates in two geographic segments, exclusively in the mobile communications, navigation and guidance equipment industry, which it considers to be a single business activity. The Company has two primary product categories: mobile communication and guidance and stabilization. Mobile communication sales and services include marine, land mobile, automotive, and aeronautical communication equipment and satellite-based voice, television and Broadband Internet connectivity services. Guidance and stabilization sales and services include sales of and defense-related navigation and guidance and stabilization equipment based upon digital compass and fiber optic sensor technology. Guidance and stabilization sales also include development contract revenue.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

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

	Sales Originating From		
Three months ended September 30, 2010	**Americas**	**Europe and Asia**	**Total**
Mobile communication sales to the United States	$ 11,549	$	$ 11,549
Mobile communication sales to Canada	128		128
Mobile communication sales to Europe	330	2,195	2,525
Mobile communication sales to other geographic areas	486	636	1,122
Guidance and stabilization sales to the United States	6,110		6,110
Guidance and stabilization sales to Canada	1,063		1,063
Guidance and stabilization sales to Europe	4,784		4,784
Guidance and stabilization sales to other geographic areas	482		482
Intercompany sales	1,114	274	1,388
Subtotal	26,046	3,105	29,151
Eliminations	(1,114)	(274)	(1,388)
Net sales	$ 24,932	$ 2,831	$ 27,763
Segment net income (loss)	$ 541	$ 96	$ 637
Depreciation and amortization	$ 975	$ 25	$ 1,000
Total assets	$ 101,029	$ 13,897	$ 114,926

	Sales Originating From		
Three months ended September 30, 2009	**North America**	**Europe**	**Total**
Mobile communication sales to the United States	$ 8,008	$	$ 8,008
Mobile communication sales to Canada	180		180
Mobile communication sales to Europe	1,156	1,934	3,090
Mobile communication sales to other geographic areas	140	742	882
Guidance and stabilization sales to the United States	4,641		4,641
Guidance and stabilization sales to Canada	808		808
Guidance and stabilization sales to Europe	3,461		3,461
Guidance and stabilization sales to other geographic areas	1,573		1,573
Intercompany sales	1,089		1,089
Subtotal	21,056	2,676	23,732
Eliminations	(1,089)		(1,089)
Net sales	$ 19,967	$ 2,676	$ 22,643
Segment net income	$ 69	$ 316	$ 385

Depreciation	$ 646	$ 9	$ 655
Total assets	$ 88,787	$ 6,011	$ 94,798

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

	Sales Originating From		
Nine months ended September 30, 2010	**Americas**	**Europe and Asia**	**Total**
Mobile communication sales to the United States	$ 35,283	$	$ 35,283
Mobile communication sales to Canada	498		498
Mobile communication sales to Europe	1,022	7,545	8,567
Mobile communication sales to other geographic areas	835	2,860	3,695
Guidance and stabilization sales to the United States	15,857		15,857
Guidance and stabilization sales to Canada	3,175		3,175
Guidance and stabilization sales to Europe	16,104		16,104
Guidance and stabilization sales to other geographic areas	2,062		2,062
Intercompany sales	5,411	274	5,685
Subtotal	80,247	10,679	90,926
Eliminations	(5,411)	(274)	(5,685)
Net sales	$ 74,836	$ 10,405	$ 85,241
Segment net income (loss)	$ 7,649	$ 379	$ 8,028
Depreciation and amortization	$ 2,706	$ 40	$ 2,746
Total assets	$ 101,029	$ 13,897	$ 114,926

	Sales Originating From		
Nine months ended September 30, 2009	**North America**	**Europe**	**Total**
Mobile communication sales to the United States	$ 22,330	$	$ 22,330
Mobile communication sales to Canada	439		439
Mobile communication sales to Europe	3,385	6,757	10,142
Mobile communication sales to other geographic areas	410	2,418	2,828
Guidance and stabilization sales to the United States	12,346		12,346
Guidance and stabilization sales to Canada	2,061		2,061
Guidance and stabilization sales to Europe	9,521		9,521
Guidance and stabilization sales to other geographic areas	3,108		3,108
Intercompany sales	4,379		4,379
Subtotal	57,979	9,175	67,154
Eliminations	(4,379)		(4,379)
Net sales	$ 53,600	$ 9,175	$ 62,775
Segment net (loss) income	$ (2,798)	$ 818	$ (1,980)
Depreciation	$ 1,847	$ 25	$ 1,872
Total assets	$ 88,787	$ 6,011	$ 94,798

(10) Legal Matters

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

(11) Share Buyback Program

On November 26, 2008, the Company s Board of Directors authorized a program to repurchase up to one million shares of the Company s common stock. As of September 30, 2010, 798,676 shares of the Company s common stock remain available for repurchase under the authorized program. The repurchase program is funded using the Company s existing cash, cash equivalents, marketable securities and future cash flows. Under the repurchase program, the Company, at management s discretion, may repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases depends on availability of shares, price, market conditions, alternative uses of capital, and applicable regulatory requirements. The program may be modified, suspended or terminated at any time without prior notice. The repurchase program has no expiration date. There were no other repurchase programs outstanding during the nine months ended September 30, 2010 and no repurchase programs expired during the period.

The Company did not repurchase any shares of its common stock in the nine months ended September 30, 2010.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

(12) Long-Term Aviation Antenna Development and Production Agreement

On February 18, 2008, the Company entered into a $20,055 long-term antenna development and production agreement (the Agreement) that was subsequently increased in 2009 to $20,896. Under the terms of the Agreement, the Company designs, develops, and manufactures satellite television antennas for use on narrowbody commercial aircraft operating in the United States. The Company began shipment of the antennas in the second quarter of 2009. As of September 30, 2010, the Company has incurred $4,669 in research and development costs related to this arrangement. In accordance with ASC 730, *Research and Development*, and the Agreement, these costs are capitalized as they are incurred and then expensed into costs of product sales as antennas are sold in proportion to the number of antennas delivered versus the total contractual antenna production requirement. The Company expensed $7 and $1,000 of aviation antenna research and development costs into costs of product sales during the three and nine months ended September 30, 2010, respectively and expensed $19 of aviation antenna research and development costs into costs of product sales during the three and nine months ended September 30, 2009, respectively. The net amount of $2,868 in remaining capitalized research and development costs are costs that the Company has a contractual right to recover, and are reflected in other non-current assets as of September 30, 2010.

(13) Fair Value Measurements

Effective January 1, 2008, the Company adopted the required provisions of ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company s Level 1 assets are investments in money market mutual funds, government agency bonds, government agency discount notes, corporate notes, United States treasuries and certificates of deposit.

Level 2: Quoted prices for similar assets or liabilities in active markets; or observable prices that are based on observable market data, based on directly or indirectly market-corroborated inputs. The Company s Level 2 liabilities are interest rate swaps.

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

Assets and liabilities measured at fair value are based on one or more of four valuation techniques. The four valuation techniques are identified in the table below and are as follows:

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

(b) Cost approach amount that would be required to replace the service capacity of an asset (replacement cost)

(c) Income approach techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models)

(d) The valuations of the interest rate swaps intended to mitigate the Company s interest rate risk are determined with the assistance of a third party financial institution using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each instrument. This analysis utilizes observable market-based inputs, including interest rate curves and interest rate volatility, and reflects the contractual terms of these instruments, including the period to maturity.

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

The following tables present financial assets and liabilities at September 30, 2010 and December 31, 2009 for which the Company measures fair value on a recurring basis, by level, within the fair value hierarchy:

September 30, 2010	Total	Level 1	Level 2	Level 3	Valuation Technique
Assets					
Money market mutual funds	$ 17,529	$ 17,529	$	$	(a)
Government agency bonds	8,524	8,524			(a)
Certificates of deposit	2,128	2,128			(a)
Corporate notes	1,873	1,873			(a)
Liabilities					
Interest rate swaps	$ 440	$	$ 440	$	(d)

December 31, 2009	Total	Level 1	Level 2	Level 3	Valuation Technique
Assets					
Government agency bonds	$ 12,064	$ 12,064	$	$	(a)
United States treasuries	11,623	11,623			(a)
Money market mutual funds	5,977	5,977			(a)
Government agency discount notes	3,499	3,499			(a)
Certificates of deposit	2,270	2,270			(a)

Certain financial instruments are carried at cost on the condensed consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses.

(14) Business and Credit Concentrations

Significant portions of the Company s net sales are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net sales to foreign customers outside the U.S. and Canada	32.1%	44.1%	35.7%	44.8%
Net sales to Customer A	15.9%	14.3%	17.4%	13.6%

Net sales to a single customer (Customer A) accounted for approximately 15.9% and 14.3% of the Company s net sales for the three months ended September 30, 2010 and 2009, respectively and 17.4% and 13.6% of the Company s net sales for the nine months ended September 30, 2010 and 2009, respectively. In addition, net sales to a subcontractor to Customer A accounted for approximately 4.0% of the Company s net sales for the three months ended September 30, 2010 and 2009, respectively and 6.4% of the Company s net sales for the nine months ended September 30, 2010 and 2009, respectively. The terms and conditions of sales to Customer A and the subcontractor to Customer A are consistent with the Company s standard terms and conditions of product sales. Customer A and the subcontractor to Customer A are current with all outstanding receivable balances.

(15) Derivative Instruments and Hedging Activities

Effective April 1, 2010, in order to reduce the volatility of cash outflows that arise from changes in interest rates, the Company entered into two interest rate swap agreements. These interest rate swap agreements are intended to hedge the Company s mortgage loan related to its headquarters facility in Middletown, Rhode Island by fixing the interest rates specified in the mortgage loan to 5.91% for half of the principal amount outstanding and 6.07% for the remaining half of the principal amount outstanding as of April 1, 2010 until the mortgage loan expires on April 16, 2019.

As required by ASC Topic 815, *Derivatives and Hedging*, the Company records all derivatives on the balance sheet at fair value. As of September 30, 2010, the fair value of the derivatives is included in other accrued liabilities and the unrealized loss is included in other comprehensive income (loss).

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KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited, all amounts in thousands except share and per share amounts)

As of September 30, 2010, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivatives	Notional (in thousands)	Asset (Liability)	Effective Date	Maturity Date	Index	Strike Rate
Interest rate swap	$ 1,919	(209)	April 1, 2010	April 1, 2019	1-month LIBOR	5.91%
Interest rate swap	$ 1,919	(231)	April 1, 2010	April 1, 2019	1-month LIBOR	6.07%

(16) Business Acquisition

On September 13, 2010, the Company s Danish subsidiary, KVH Europe A/S, completed a $6.5 million all-cash acquisition of Virtek Communication. Virtek Communication is located in Norway and specializes in the development and deployment of CommBox technology, which is a middleware product to be integrated into the Company s mini-VSAT Broadband service.

The acquisition is accounted for as a purchase and, accordingly, has been included in the Company s condensed consolidated statements of operations since the acquisition date. As of September 30, 2010, the purchase price has been allocated primarily to goodwill and intangible assets. Purchase price allocations are subject to refinement until all pertinent information regarding the acquisition is obtained. Pro forma results related to this acquisition have not been presented as the effect is not material.

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

Introduction

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

Overview

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Mobile communications	$ 15,324	$ 12,160	$ 48,043	$ 35,739
Guidance and stabilization	12,439	10,483	37,198	27,036
Sales	$ 27,763	$ 22,643	$ 85,241	$ 62,775

Our mobile communications service sales include sales earned from product repairs, sales of satellite voice and Internet usage services, extended warranty sales and certain DIRECTV and DISH Network account referral fees earned in conjunction with the sale of our products. We provide, for a fee, third-party satellite voice and Internet airtime to our TracPhone and Internet customers who choose to activate their subscriptions with us. We also generate service sales from broadband Internet and VoIP service sold with our mini-VSAT product. Under current DIRECTV and DISH Network programs, we are eligible to receive a one-time subsidy for each DIRECTV receiver activated and a new mobile account activation fee from DIRECTV and DISH Network for each customer who activates their DIRECTV or DISH Network service directly through us. Our guidance and stabilization service sales include product repairs and engineering services provided under development contracts.

Our guidance and stabilization business is characterized by a small number of customers who place a small number of relatively large dollar value orders. Orders for our guidance and stabilization products typically vary in size and are sometimes in the range of several hundred thousand dollars to over one million dollars. Each order can have a significant impact on our sales, and because our guidance and stabilization products generally have higher gross margins than our mobile communications products, each order can have an impact on our net income that is disproportionately large relative to the sales generated by the order. Moreover, customers of our guidance and stabilization products are currently predominantly government contractors that typically must adhere to lengthy procurement processes, which make the timing of individual orders difficult to predict and often result in long sales cycles. Government customers and their contractors can generally cancel orders for our products for convenience.

We have historically derived a substantial portion of our sales from sales to customers located outside the United States. Notes 9 and 14 of the notes to the condensed consolidated financial statements provide information regarding our sales to specific geographic regions.

Critical Accounting Policies and Significant Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, sales and expenses, and related disclosure at the date of our financial statements. Our significant accounting policies are summarized in note 1 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009.

As described in our Form 10-K for the year ended December 31, 2009, our most critical accounting policies and estimates upon which our consolidated financial statements were prepared were those relating to revenue recognition, allowances for accounts receivable, inventories, income taxes and deferred income tax assets and liabilities and warranty. We have reviewed our policies and estimates and determined that these remain our most critical accounting policies and estimates for the quarter ended September 30, 2010, except as set forth below.

Readers should refer to our 2009 Form 10-K under Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Estimates for the detailed descriptions of these policies.

Income Taxes and Deferred Income Tax Assets and Liabilities

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. On a quarterly basis, we assess the recoverability of our deferred tax assets by considering whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the second quarter of 2010, based upon an evaluation of the positive and negative evidence, we concluded that $4.0 million of the deferred tax asset valuation allowance was no

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longer required. In the third quarter, we concluded that an additional $0.4 million of the deferred tax asset valuation allowance was required as the result of a change in our forecasted reversal of timing of book to tax differences with respect to deferred stock compensation and other temporary book to tax adjustments, resulting in a remaining valuation allowance requirement of $2.1 million as of September 30, 2010. As part of our analysis, we evaluated, among other factors, our recent history of generating taxable income and our near-term forecasts of future taxable income and determined that it is more likely than not that we will be able to realize an additional $3.5 million of our deferred tax assets over the next several years. After considering these factors, we concluded that a reversal of the valuation allowance was appropriate.

Results of Operations

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Sales:				
Product	77.8%	82.2%	82.1%	83.3%
Service	22.2	17.8	17.9	16.7
Net sales	100.0	100.0	100.0	100.0
Cost and expenses:				
Costs of product sales	42.1	47.1	45.2	52.8
Costs of service sales	16.3	13.5	13.9	11.8
Sales, marketing and support	15.8	18.7	16.0	19.7
Research and development	10.6	10.1	9.4	10.0
General and administrative	10.6	8.6	9.0	9.1
Total costs and expenses	95.4	98.0	93.5	103.4
Income (loss) from operations	4.6	2.0	6.5	(3.4)
Interest income	0.3	0.3	0.3	0.4
Interest expense	0.2	0.1	0.2	0.1
Other (expense) income, net	(0.1)	(0.1)	0.1	0.0
Income (loss) before income tax expense (benefit)	4.6	2.1	6.7	(3.1)
Income tax expense (benefit)	2.3	0.4	(2.7)	0. 0
Net income (loss)	2.3%	1.7%	9.4%	(3.1)%

Three Months Ended September 30, 2010 and 2009

Net Sales

Product sales for the three months ended September 30, 2010 increased $3.0 million, or 16%, to $21.6 million from $18.6 million for the three months ended September 30, 2009. The primary reason for the increase was a $2.0 million, or 20%, increase in sales of our guidance and stabilization products. Specifically, sales of our FOG products increased $2.6 million, or 33%, driven largely by increased sales in support of remotely operated weapons station programs. This increase in FOG product sales was offset by a decrease in sales of our TACNAV defense products of $0.6 million or 33% as compared to the three months ended September 30, 2009. We do not expect this level of growth during the fourth quarter of 2010, as FOG product sales are expected to remain consistent with sales during the fourth quarter of 2009.

Mobile communication product sales for the three months ended September 30, 2010 increased $1.0 million, or 12%, to $9.6 million from $8.6 million for the three months ended September 30, 2009. The primary reason for the increase was a $0.6 million, or 43% increase in sales of our land mobile products driven primarily by increased sales to original equipment manufacturers in the recreational vehicle market. In addition, sales of our marine products increased $0.4 million, or 6%, driven primarily by demand for our TracVision HD7 satellite television product that we launched in the fourth quarter of 2009. Mobile communications product sales originating from our European and Asian subsidiaries remained consistent with those for the three months ended September 30, 2009, increasing by 2%. Mobile communications product sales originating from the Americas increased $0.9 million, or 16%, from the three months ended September 30, 2009 to the three months ended September 30, 2010.

Service sales for the three months ended September 30, 2010 increased $2.1 million, or 53%, to $6.2 million from $4.0 million for the three months ended September 30, 2009. The primary reason for the increase was a $2.1 million increase in airtime sales for our mini-VSAT Broadband service that we launched in the fourth quarter of 2007. Also contributing to the increase was an increase in contracted engineering revenue of $0.2 million primarily related to FOG and TACNAV products. Offsetting this increase was a decline of $0.3 million in service repair sales, primarily related to a decline in guidance and stabilization product repairs.

Cost of Sales

For the three months ended September 30, 2010, costs of product sales increased by $1.0 million, or 10%, to $11.7 million from $10.7 million for the three months ended September 30, 2009. The primary reason for the increase was the increase in unit sales of FOG products, and to a lesser extent, an increase in unit sales of marine and land mobile communication products. Partially offsetting this increase was a $0.2 million decrease in our inventory reserve costs from the third quarter of 2009 to the third quarter of 2010.

Costs of service sales increased by $1.5 million, or 49%, to $4.5 million for the three months ended September 30, 2010 from $3.0 million for the three months ended September 30, 2009. The primary reason for the increase was a $1.5 million increase in airtime costs of sales for our mini-VSAT Broadband service.

Gross margin from product sales for the three months ended September 30, 2010 increased to 46% from 43% in the year-ago period. The primary reason for the increase in gross margin was a 20% increase in our relatively higher margin guidance and stabilization product sales and a 12% increase in our mobile communication product sales, resulting in improved utilization of production capacity for fiber optic gyros and mobile communication products. Also contributing to the gross margin improvement was a $0.2 million decrease in our inventory reserve costs.

Gross margin from service sales for the three months ended September 30, 2010 increased to 26% from 24% in the year-ago period, primarily as a result of an increase in our airtime sales of our mini-VSAT Broadband service that we launched in the fourth quarter of 2007. In the fourth quarter we expect to complete the final phase of the last major remaining global network location build-out in Brazil, and we expect service margins to stabilize and show improvement as we continue to increase the number of subscribers and associated airtime service revenue.

Operating Expenses

Sales, marketing and support expense for the three months ended September 30, 2010 was consistent with that of the three months ended September 30, 2009, increasing by $0.1 million, or 3%, to $4.4 million from $4.2 million. The primary reason for the increase in 2010 was a $0.4 million increase in employee compensation for sales, marketing and support, primarily in connection with the global expansion of our mini-VSAT Broadband satellite communication service. Also contributing to the increase were a $0.1 million increase in sales, marketing and support expense related to our Danish subsidiary, a $0.1 million increase in facility expenditures allocated to the sales and marketing department, and a $0.1 million increase in expenditures for marketing literature. Partially offsetting the increase was a $0.6 million decrease in warranty expense. As a percentage of sales, sales, marketing and support expense decreased during the quarter ended September 30, 2010 to 16% from 19% for the quarter ended September 30, 2009, due primarily to the increase in product and service sales discussed above.

Research and development expense for the three months ended September 30, 2010 increased by $0.6 million, or 28%, to $2.9 million from $2.3 million for the three months ended September 30, 2009. The primary reason for the increase in 2010 expense was an

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increase in engineering related employee compensation, consulting and material costs, primarily in connection with the general increase in development of products for all markets. As a percentage of sales, research and development expense increased slightly during the quarter ended September 30, 2010 to 11% from 10% for the quarter ended September 30, 2009.

General and administrative expense for the three months ended September 30, 2010 increased by $1.0 million, or 52%, to $3.0 million from $1.9 million for the three months ended September 30, 2009. The primary reason for the increase in 2010 expense was $0.5 million in transaction costs associated with the acquisition of Virtek Communication. Also contributing to the increase was a $0.4 million increase in general and administrative related employee compensation, primarily as a result of an increase in general and administrative staffing as well as an increase in stock compensation expense and accrued performance based incentive compensation. As a percentage of sales, general and administrative expense increased during the quarter ended September 30, 2010 to 11% from 9% for the quarter ended September 30, 2009, due primarily to the transaction costs associated with the acquisition of Virtek Communication.

Interest Income and Other Expense

Interest income and other expense for the three months ended September 30, 2010 was $0.0 million, which was consistent with interest income and other expense for the three months ended September 30, 2009.

Income Tax Expense

Income tax expense for the three months ended September 30, 2010 increased by $0.5 million to $0.6 million from $0.1 million for the three months ended September 30, 2009. The primary reason for the increase in 2010 was a $0.4 million increase in deferred income tax expense. In the third quarter, we concluded that an additional $0.4 million of the U.S. deferred tax asset valuation allowance was required as the result of a change in our forecasted reversal of timing of book to tax differences with respect to deferred stock compensation and other temporary book to tax adjustments. Also contributing to the increase was a $0.8 million increase in pre-tax income.

Nine Months Ended September 30, 2010 and 2009

Net Sales

Product sales for the nine months ended September 30, 2010 increased $17.7 million, or 34%, to $70.0 million from $52.3 million for the nine months ended September 30, 2009. The primary reason for the increase was a $10.1 million, or 39%, increase in sales of our guidance and stabilization products. Specifically, sales of our FOG products increased $10.6 million, or 53%, driven largely by increased sales in support of remotely operated weapons station programs. Although we expect that FOG sales will continue to grow over the long term, sales on a quarter to quarter basis could be very uneven. Partially offsetting this increase was a decrease of $0.7 million, or 14%, in sales of our TACNAV defense products.

Mobile communication product sales for the nine months ended September 30, 2010 increased $7.6 million, or 29%, to $34.3 million from $26.7 million for the nine months ended September 30, 2009. The primary reason for the increase was a $4.4 million increase in sales of our satellite television antenna used on narrowbody commercial aircraft. We began shipping this antenna to LiveTV in the second quarter of 2009. Future sales to LiveTV are expected to be uneven on a quarter to quarter basis and future fiscal year delivery schedules are undetermined at this time. Also contributing to the increase in mobile communication product sales in the nine months ended September 30, 2010 was an increase in sales of our marine products of $2.0 million, or 8%, compared with the nine months ended September 30, 2009, driven primarily by demand for our TracVision HD7 satellite television product that we launched in the fourth quarter of 2009 and our TracPhone V7 product. In addition, sales of our land mobile products in the nine months ended September 30, 2010 increased $1.3 million, or 36%, compared to the nine months ended September 30, 2009, driven primarily by increased sales to original equipment manufacturers in the recreational vehicle market. Mobile communications product sales originating from the Americas increased $6.4 million, or 37%, from the nine months ended September 30, 2009 to the nine months ended September 30, 2010. Mobile communications product sales originating from our European and Asian subsidiaries increased $1.2 million, or 13%, from the nine months ended September 30, 2009 to the nine months ended September 30, 2010.

Service sales for the nine months ended September 30, 2010 increased $4.8 million, or 46%, to $15.2 million from $10.5 million for the nine months ended September 30, 2009. The primary reason for the increase was a $5.1 million increase in airtime sales for our mini-VSAT Broadband service. Also contributing to the increase was an increase in contracted engineering revenue of $0.6 million primarily related to FOG and TACNAV products. Offsetting this increase was a decline of $0.8 million in service repair sales, primarily related to a decline in guidance and stabilization product repairs.

Cost of Sales

For the nine months ended September 30, 2010, costs of product sales increased by $5.4 million, or 16%, to $38.5 million from $33.1 million for the nine months ended September 30, 2009. The primary reason for the increase was the increase in unit sales of FOG products. Also contributing to the increase was an increase in unit sales of our satellite television antenna used on narrowbody commercial aircraft, and to a lesser extent, an increase in unit sales of marine and land mobile communication products. Partially offsetting this increase was a $1.2 million decrease in our inventory reserve costs as a result of a 2009 charge in the amount of $1.3 million primarily related to certain military components and the introduction of new mobile communications products during 2009.

Costs of service sales increased by $4.5 million, or 60%, to $11.9 million for the nine months ended September 30, 2010 from $7.4 million for the nine months ended September 30, 2009. The primary reason for the increase was a $4.0 million increase in airtime costs of sales for our mini-VSAT Broadband service. Also contributing to the increase was an increase in our contracted engineering services costs of sales of approximately $0.5 million primarily related to FOG and TACNAVproducts.

Gross margin from product sales for the nine months ended September 30, 2010 increased to 45% from 37% in the year-ago period. The primary reason for the increase in gross margin was a 39% increase in our relatively higher margin guidance and stabilization product sales and a 29% increase in our mobile communication product sales, resulting in improved utilization of production capacity for fiber optic gyros and mobile communication products for the nine months ended September 30, 2010. Also contributing to the gross margin improvement was a $1.2 million decrease in our inventory reserve costs.

Gross margin from service sales for the nine months ended September 30, 2010 decreased to 22% from 29% in the year-ago period primarily as a result of a decrease in service repair revenue.

Operating Expenses

Sales, marketing and support expense for the nine months ended September 30, 2010 increased by $1.2 million, or 10%, to $13.6 million from $12.4 million for the nine months ended September 30, 2009. The primary reason for the increase in 2010 was a $1.0 million increase in employee compensation for sales, marketing and support, primarily in connection with the global expansion of our mini-VSAT Broadband satellite communication service. Also contributing to the increase were a $0.3 million increase in sales, marketing and support expense related to our Danish subsidiary, a $0.3 million increase in facility expenditures allocated to the sales and marketing department, and a $0.1 million increase in expenses associated with trade shows. Partially offsetting the increase was a $0.4 million decrease in bad debt expense, as well as a decrease in warranty expense of $0.4 million. As a percentage of sales, year-to-date sales, marketing and support expense decreased to 16% in 2010 from 20% in 2009, due primarily to the increase in product and service sales discussed above.

Research and development expense for the nine months ended September 30, 2010 increased by $1.8 million, or 28% to $8.0 million from $6.3 million for the nine months ended September 30, 2009. All research and development costs are expensed as incurred, excluding the aviation antenna development costs related to the development project for LiveTV, which are capitalized, as we have a contractual right to recover such costs (see note 12 to the condensed consolidated financial statements). The primary reason for the increase in 2010 expense was the core completion of the development project for the satellite television antenna to be used on narrowbody commercial aircraft. The project was substantially complete in the second quarter of 2009 and resulted in a $1.0 million decrease in the capitalization of aviation antenna development costs during the first nine months of 2010 versus the first nine months of 2009 and a corresponding increase in research and development expense. Also contributing to the increase was an increase in engineering related employee compensation, material costs and consulting, primarily in connection with the general increase in development of products for all markets. As a percentage of sales, year-to-date research and development expense decreased to 9% in 2010 from 10% in 2009 due primarily to the increase in product and service sales discussed above.

General and administrative expense for the nine months ended September 30, 2010 increased by $1.9 million, or 33%, to $7.6 million from $5.7 million for the nine months ended September 30, 2009. The primary reason for the increase in 2010 expense was a $1.0 million increase in general and administrative related employee compensation, primarily as a result of an increase in general and administrative staffing as well as an increase in stock compensation expense and accrued performance based incentive compensation. Also contributing to the increase was $0.5 million in transaction costs associated with the acquisition of Virtek Communication and a $0.2 million increase in legal and consulting fees associated with satellite capacity and licensing arrangements in connection with the global expansion of our mini-VSAT Broadband satellite communication service. As a percentage of sales, year-to-date general and administrative expense was 9%, which was consistent with 2009, despite the increase in product and service sales discussed above, due primarily to the transaction costs associated with the acquisition of Virtek Communication.

Interest Income and Other Income

Interest income and other income for the nine months ended September 30, 2010 was $0.2 million, which was consistent with interest income and other income for the nine months ended September 30, 2009.

Income Tax (Benefit) Expense

Income tax benefit for the nine months ended September 30, 2010 increased by $2.3 million from $0.0 for the nine months ended September 30, 2009. The primary reason for the increase in 2010 was a tax benefit in the amount of $3.5 million recognized as a result of the reversal of a substantial portion of the U.S. deferred tax asset valuation allowance during the second quarter of 2010. During the second quarter of 2010, based upon an evaluation of the positive and negative evidence, we concluded that $4.0 million of the deferred tax asset valuation allowance was no longer required. In the third quarter, we concluded that an additional $0.4 million of the deferred tax asset valuation allowance was required as the result of a change in our forecasted reversal of timing of book to tax differences with respect to deferred stock compensation and other temporary book to tax adjustments, resulting in a remaining valuation allowance requirement of $2.1 million as of September 30, 2010. As part of our analysis, we evaluated, among other factors, our recent history of generating taxable income and our near-term forecasts of future taxable income and determined that it is more likely than not that we will be able to realize an additional $3.5 million of our deferred tax assets over the next several years. After considering these factors, we concluded that a reversal of the valuation allowance was appropriate. Partially offsetting the income tax benefit was income tax expense associated with our $5.7 million pre-tax income in 2010 versus a $2.0 million pre-tax loss in 2009.

Liquidity and Capital Resources

We have historically funded our operations primarily from operating cash flows, net proceeds from public and private equity offerings, bank financings and proceeds received from exercises of stock options. As of September 30, 2010, we had $37.3 million in cash, cash equivalents and marketable securities and $57.4 million in working capital.

Net cash provided by operations was $9.5 million for the nine months ended September 30, 2010 as compared to net cash provided by operations of $1.6 million for the nine months ended September 30, 2009. The increase is primarily due to a $10.0 million increase in net income as well as a $4.6 million reduction in cash outflows related to accounts payable and accrued expenses and a $2.2 million reduction in cash outflows for other long-term assets. The decrease in cash outflows was partially offset by a $2.6 million increase in cash outflows attributable to accounts receivable, a $2.5 million increase in cash outflows related to increased inventory levels, a $0.7 million increase in cash outflows related to prepaid expenses and other assets and a $0.6 million increase in cash outflows related to deferred revenue.

Net cash used in investing activities was $11.3 million for the nine months ended September 30, 2010 as compared to net cash used in investing activities of $3.9 million for the nine months ended September 30, 2009. The increase is primarily due to the $6.5 million in net cash paid for the acquisition of Virtek Communication. Also contributing to the increase in cash outflows was a $6.0 million increase in our capital expenditures, primarily due to the purchase of the land and building in our Tinley Park, Illinois location for approximately $4.3 million as well as the global expansion of our mini-VSAT Broadband satellite communication products and service. This increase in cash outflows was partially offset by a $5.1 million decrease in our net investment in marketable securities.

Net cash provided by financing activities was $2.8 million for the nine months ended September 30, 2010 as compared to net cash provided by financing activities of $1.4 million for the nine months ended September 30, 2009. The increase is primarily due to a $3.3 million increase in proceeds from exercises of stock options and purchases of shares under our employee stock purchase plan. Also contributing to the increase in net cash provided by financing activities was a $0.6 million decrease in repurchases of common stock. Partially offsetting the increase in cash provided by financing activities was a decrease of $1.9 million in net cash provided by our mortgage refinancing activities in the first two quarters of 2009, when we made a $2.0 million balloon repayment on our former mortgage loan and took out a new $4.0 million mortgage loan on our headquarters facility. Further offsetting the increase in cash provided by financing activities was a $0.4 million increase in payments of employee restricted stock tax withholdings.

On April 6, 2009, we entered into a mortgage loan in the amount of $4.0 million related to our headquarters facility in Middletown, Rhode Island. The loan term is 10 years, with a principal amortization of 20 years, and the interest rate will be a rate per year adjusted periodically based on a defined interest period equal to the BBA LIBOR Rate plus 2.25 percentage points. Land, building and improvements with an approximate carrying value of $5.0 million as of September 30, 2010 secure the mortgage loan. The monthly mortgage payment is approximately $9,400 plus interest and increases in increments of approximately $600 each year throughout the life of the mortgage. Due to the difference in the term of the loan and amortization of the principal, a balloon payment of $2.6 million is due on April 1, 2019. The loan contains one financial covenant, a Fixed Charge Coverage Ratio, which applies in the event that our consolidated cash, cash equivalents and marketable securities balance falls below $25.0 million at any time. As our consolidated cash, cash equivalents and marketable securities balance was above $25.0 million for the nine months ended September 30, 2010, the Fixed Charge Coverage Ratio did not apply. Under the mortgage loan we may prepay our outstanding loan balance subject to certain early termination charges as defined in the mortgage loan agreement. If we were to default on our mortgage loan, the land, building and improvements would be used as collateral. As discussed in note 15 to the condensed consolidated financial statements, effective April 1, 2010, in order to reduce the volatility of cash outflows that arise from changes in interest rates, we entered into two interest rate swap agreements that are intended to hedge our mortgage interest obligations by fixing the interest rates specified in the mortgage loan to 5.91% for half of the principal amount outstanding and 6.07% for the remaining half of the principal amount outstanding as of April 1, 2010 until the mortgage loan expires on April 16, 2019.

On September 13, 2010, our Danish subsidiary, KVH Europe A/S, completed the purchase of Virtek Communication for approximately $6.5 million. The purchase was made using existing cash, cash equivalents and marketable securities.

On September 15, 2010, we purchased a facility located in Tinley Park, Illinois, which we had previously leased, for approximately $4.3 million. The property was purchased using existing cash, cash equivalents and marketable securities.

Currently, we have a revolving loan agreement with a bank that provides for a maximum available credit of $15.0 million and will expire on December 31, 2011. We pay interest on any outstanding amounts at a rate equal to, at our option, BBA LIBOR Daily Floating Rate plus 1.75%, or the Eurodollar Rate plus 1.75%. The line of credit contains two financial covenants, a Leverage Ratio

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and a Fixed Charge Coverage Ratio, that apply in the event that our consolidated cash, cash equivalents and marketable securities balance falls below $25.0 million at any time. As our consolidated cash, cash equivalents and marketable securities balance was above $25.0 million throughout the nine months ended September 30, 2010, the Leverage Ratio and Fixed Charge Coverage Ratio did not apply. We may terminate the loan agreement prior to its full term without penalty, provided we give 30 days advance written notice to the bank. As of September 30, 2010, no borrowings were outstanding under the facility.

On November 26, 2008, our Board of Directors authorized a program to repurchase up to one million shares of our common stock. The share repurchase program is funded using our existing cash, cash equivalents, marketable securities and future cash flows. As of September 30, 2010, there were 798,676 shares that may yet be purchased under this program. We did not repurchase any shares of our common stock during the nine months ended September 30, 2010 under the program.

It is our intent to continue to invest in the mini-VSAT Broadband network on a global basis in cooperation with ViaSat under the terms of a 10-year agreement announced in July 2008. As part of this investment, we expect that we will purchase additional hubs from ViaSat over time for capacity and/or regional expansion. Each satellite hub represents a substantial capital investment. In 2008, we entered into an agreement to lease satellite capacity in order to provide coverage in the Pacific Ocean. In 2009, we entered into several agreements with various satellite owners in order to provide satellite coverage to North American, Caribbean, African, Asia-Pacific, Indian Ocean, Australian and New Zealand waters. During the third quarter of 2010, we entered into an agreement to lease satellite capacity to provide coverage in offshore Brazilian waters. In addition to these agreements, as part of future potential capacity and coverage expansion, we would plan to seek to acquire additional satellite capacity from satellite operators, expend funds to seek regulatory approvals and permits, develop product enhancements in anticipation of the expansion, and hire additional personnel. We anticipate these costs will be funded by cash, cash equivalents and marketable securities on hand, as well as cash flows from operations.

We believe that the $37.3 million we hold in cash, cash equivalents and marketable securities, together with our other existing working capital and cash flows from operations, will be adequate to meet planned operating and capital requirements through at least the next twelve months. However, as the need or opportunity arises, we may seek to raise additional capital through public or private sales of securities or through additional debt financing. There are no assurances that we will be able to obtain any additional funding or that such funding will be available on terms acceptable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is in the area of foreign currency exchange risk. We are exposed to currency exchange rate fluctuations related to our subsidiary operations in Brazil, Denmark, Norway and Singapore. Certain transactions in these locations are made in the local currency, yet are reported in the U.S. dollar, the functional currency. For foreign currency exposures existing at September 30, 2010, a 10% unfavorable movement in the foreign exchange rates for our subsidiary locations would not expose us to material losses in earnings or cash flows.

From time to time, we purchase foreign currency forward contracts generally having durations of no more than five months. These forward contracts are intended to offset the impact of exchange rate fluctuations on cash flows of our foreign subsidiaries. Foreign exchange contracts are accounted for as cash flow hedges and are recorded on the balance sheet at fair value until executed. Changes in the fair value are recognized in earnings. We did not enter into any such contracts during the nine months ended September 30, 2010.

The primary objective of our investment activities is to preserve principal and maintain liquidity, while at the same time maximize income. We have not entered into any instruments for trading purposes. Some of the securities that we invest in may have market risk. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities that can include commercial paper, United States treasuries, certificates of deposit, investment grade asset-backed corporate securities, money market mutual funds and government agency and non-government debt securities. As of September 30, 2010, a hypothetical 100 basis-point increase in interest rates would result in an immaterial decrease in the fair value of our investments that have maturities of greater than one year. Due to the conservative nature of our investments and the relatively short duration of their maturities, we believe interest rate risk is substantially mitigated. As of September 30, 2010, 73% of the $30.1 million classified as available-for-sale marketable securities will mature or reset within one year. Accordingly, long-term interest rate risk is not considered material. We do not invest in any financial instruments denominated in foreign currencies as of September 30, 2010.

To the extent that we borrow against our variable-rate credit facility, we will be subject to interest rate risk. There were no borrowings outstanding at September 30, 2010.

As previously discussed in note 15 to the condensed consolidated financial statements, effective April 1, 2010, in order to reduce the volatility of cash outflows that arise from changes in interest rates, we entered into two interest rate swap agreements. These interest rate swap agreements are intended to hedge our mortgage loan related to our headquarters facility in Middletown, Rhode Island by fixing the interest rates specified in the mortgage loan to 5.91% for half of the principal amount outstanding and 6.07% for the remaining half of the principal amount outstanding as of April 1, 2010 until the mortgage loan expires on April 16, 2019.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our CEO and CFO, our management has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this interim report. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2010.

Evaluation of Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of our CEO and CFO, our management has evaluated our internal control over financial reporting during the third quarter of 2010. Based on that evaluation, our CEO and CFO did not identify any change in our internal control over financial reporting during the third quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. Risk Factors

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

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

Worldwide economic conditions have experienced a significant downturn over the last two years, including slower economic activity, tightened credit markets, inflation and deflation concerns, decreased consumer confidence, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns. These conditions make it difficult for businesses, governments and consumers to accurately forecast and plan future activities. Although net sales of our FOG products increased $10.6 million, or 53%, from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 driven largely by increased sales in support of remotely operated weapons station programs to European and U.S. contractors that sell to the U.S. government, there can be no assurance that such an increase will continue in the future. Governments are experiencing significant declines in tax receipts, which may cause them to curtail spending significantly or reallocate funds away from defense programs. There can be no assurances that government responses to the disruptions in the economy will remedy these problems. As a result of these and other factors, customers could slow or suspend spending on our products and services. For example, we anticipate a sequential decline in net sales related to our largest remote weapon systems customer of approximately $4 million during the fourth quarter of 2010. We may also incur increased credit losses and need to increase our allowance for doubtful accounts, which would have a negative impact on our earnings and financial condition. We cannot predict the timing, duration or ultimate impact of this downturn. We expect our business to continue to be adversely impacted by this downturn.

Our revenues and results of operations have been and may continue to be adversely impacted by the current recession or associated declines in consumer spending.

Net sales of our mobile communications products are largely generated by discretionary consumer spending, and demand for these products may demonstrate slower growth or decline as a result of continuing weak regional and global economic conditions. Consumer spending tends to decline during recessionary periods and may decline at other times. For example, although sales of our mobile satellite communications products have recently increased, sales of those products declined approximately 27% from 2008 to 2009. These recent increases in sales may not be sustained in future periods. Consumers may choose not to purchase our mobile

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communications products due to a perception that they are luxury items. As global and regional economic conditions change, including the general level of interest rates, fluctuating oil prices and demand for durable consumer products, demand for our products could be materially and adversely affected.

Our results of operations could be adversely affected if unseasonably cold weather, prolonged winter conditions, disasters or similar events occur, including the recent oil spill in the Gulf of Mexico.

Our marine leisure business is highly seasonal. We historically have generated the majority of our marine leisure product revenues during the first and second quarters of each year, and these revenues typically decline in the third and fourth quarters of each year, compared to the first two quarters. Our marine leisure business is also significantly affected by the weather. Unseasonably cool weather, prolonged winter conditions, hurricanes, unusual amounts of rain, and natural and other disasters may decrease boating, which could reduce our revenues.

For example, the recent oil spill in the Gulf of Mexico has resulted in the imposition of one or more no fishing zones, and the federal government imposed a temporary moratorium on certain deep water offshore drilling activities. The oil spill may lead to further regulation, increases in the cost of doing business offshore, potential delays or bans on further exploration and drilling, limits on leisure and commercial activity in the Gulf of Mexico and elsewhere, and other unforeseen consequences, any of which could reduce both leisure boating and commercial operations. Any such reduction in activity could reduce demand for our marine products and harm our results of operations.

We expect that we will derive an increasing portion of our revenues from commercial leases of mobile communications equipment, rather than sales, which could increase our credit and collection risk.

We are actively seeking to increase revenues from the commercial markets for our mini-VSAT Broadband service, particularly shipping companies and other companies that deploy a fleet of vessels. In marketing this service, we offer leasing arrangements for the TracPhone V7 antenna to both commercial and leisure customers. If commercial leases become increasingly popular with our customers, we could face increased risks of default under those leases. Defaults could increase our costs of collection (including costs of retrieving leased equipment) and reduce the amount we collect from customers, which could harm our results of operations.

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

Although we generated net income during 2005, 2006, 2007, 2008 and in the first three quarters of 2010, our profitability has fluctuated significantly on both a sequential and comparable quarter-to-quarter basis during the last three fiscal years. For example in 2009, we generated a net loss of $0.1 million, which included a net loss of $2.6 million in the first quarter of 2009.

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

During 2009, we recorded an additional $1.3 million in inventory charges in order to account for the risk of excess inventory due, in part, to weak consumer demand. However, if our future inventory reduction and rebalancing efforts are unsuccessful or take an extended period of time, we may have to consider additional, more sizeable inventory reserves or write-downs to address potential excess and obsolete inventory, and our gross margins may fall below historical levels, which would adversely affect our financial results.

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

The significant downturn in worldwide economic conditions and credit tightening could present challenges to our suppliers, which could result in disruptions to our business, increase our costs, delay shipment of our products and impair our ability to generate and recognize revenue. To address their own business challenges, our suppliers may increase prices, reduce the availability of credit, require deposits or advance payments or take other actions that may impose a burden on us.

They may also reduce production capacity, slow or delay delivery of products, face challenges meeting our specifications or otherwise fail to meet our requirements. In some cases, our suppliers may face bankruptcy. We may be required to identify, qualify and engage new suppliers, which would require time and the attention of management. Any of these events could impair our ability to deliver our products to customers in a timely and cost-effective manner, cause us to breach our contractual commitments or result in the loss of customers.

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

Our mobile communications products historically have had lower product gross margins than our guidance and stabilization products. During 2007 and the first three quarters of 2008, sales of our guidance and stabilization products either declined or grew at a substantially lower rate than our overall sales growth. During the fourth quarter of 2008, the year ended December 31, 2009 and the first three quarters of 2010, we experienced a significant increase in sales of our guidance and stabilization products, primarily due to an increase in our FOG product sales. A shift in our product sales mix toward mobile communications products would likely cause lower gross margins in the future, especially if driven by reduced demand.

We must increase sales of the TracPhone V7 and our mini-VSAT Broadband service in order to improve our service gross margins.

As a result of our continued build-out of the mini-VSAT Broadband network infrastructure, our cost of service sales includes certain fixed costs that do not vary with the volume of service sales. These fixed costs are increasing as we expand our network across the globe, and we have an extremely limited ability to reduce these fixed costs in the short term. If sales of our TracPhone V7 and the mini-VSAT Broadband service do not increase as we expect or decline, our service gross margins may remain below historical levels or decline. For example, our overall service gross margin, which also includes product repair sales, Inmarsat airtime sales, and contracted engineering sales, declined from 29% for the nine months ended September 30, 2009 to 22% for the nine months ended September 30, 2010. The failure to improve our mini-VSAT Broadband service gross margins would have a material adverse effect on our overall profitability.

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

The mobile communications markets and defense navigation, guidance and stabilization markets in which we participate are very competitive, and we expect this competition to persist and intensify in the future. We may not be able to compete successfully against current and future competitors, which could impair our ability to sell our products. For example, improvements in the performance of lower cost gyros by competitors could potentially jeopardize sales of our fiber optic gyros. Foreign competition for our mobile satellite communications products has continued to intensify, most notably from companies that seek to compete primarily on price. We anticipate that this trend of substantial competition will continue.

In the market for marine satellite TV equipment, we compete with NaviSystem Marine Electronic Systems Srl, King Controls, Cobham Sea Tel, Inc., Raymarine, Thrane & Thrane A/S and Intellian.

In the market for maritime broadband service we compete with Speedcast, MTN/SeaMobile, CapRock, Schlumberger, Ship Equip, Vizada and Stratos.

In the marine market for satellite communications equipment, we compete with Cobham Sea Tel, Inc., Furuno Electric Co., Ltd., Globalstar LP, Thrane & Thrane A/S, Intellian, Ship Equip, JRC and Iridium Satellite LLC.

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

In the guidance and stabilization markets, we compete primarily with Honeywell International Inc., Kearfott Guidance & Navigation Corporation, Northrop Grumman Corporation, Goodrich Aerospace, IAI, and Fizoptica.

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

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

The emergence of a competing small maritime VSAT antenna and complementary service or other similar service could reduce the competitive advantage we believe we currently enjoy with our 24-inch diameter TracPhone V7 antenna and integrated mini-VSAT

Broadband service.

Our TracPhone V7 system offers customers a range of benefits due to its integrated design, hardware costs that are lower than existing maritime VSAT systems, and spread spectrum technology. We currently compete against companies that offer established maritime VSAT service using, in some cases, antennas 1-meter in diameter or larger. We are also encountering regional competition from companies offering similar 24-inch VSAT systems and services. In addition, other companies could replicate some of the distinguishing features of our TracPhone V7, which could potentially reduce the appeal of our solution, increase price competition and adversely affect sales. Moreover, consumers may choose other services such as FleetBroadband or Iridium OpenPort for their service coverage and potentially lower hardware costs despite higher service costs and slower data rates.

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Our ability to compete in the maritime airtime services market may be impaired if we are unable to complete the expansion of coverage of our mini-VSAT Broadband service to offer service around the globe or with sufficient service capacity to meet customer demand.

The TracPhone V7 and mini-VSAT Broadband service offer a range of benefits to mariners, especially in commercial markets, due to the smaller size antenna and faster, more affordable airtime. However, to support these customers globally, we need to complete the expansion of the coverage areas of the mini-VSAT Broadband service, which is currently offered in the north Pacific Ocean, the Americas, Caribbean, North Atlantic, Europe, the Persian Gulf, Asia-Pacific, Australia, New Zealand, Indian Ocean and African waters. If we are unable to reach agreement with third-party satellite providers to support the mini-VSAT Broadband service and its spread spectrum technology around South America or transponder capacity is unavailable should we need to increase our capacity to meet growing demand in a given region, our ability to support vessels and aeronautical applications globally will be at risk and could reduce the attractiveness of the product and service to these customers.

The purchasing and delivery schedules and priorities of the U.S. military and foreign governments are often unpredictable.

We sell our fiber optic gyro systems as well as vehicle navigation products to U.S. and foreign military and government customers, either directly or as a subcontractor to other contractors. These customers often use a competitive bidding process and have unique purchasing and delivery requirements, which often makes the timing of sales to these customers unpredictable. Factors that affect their purchasing and delivery decisions include:

- changes in modernization plans for military equipment;
- changes in tactical navigation requirements;
- global conflicts impacting troop deployment;
- priorities for current battlefield operations;
- allocation of funding for military programs;
- new military and operational doctrines that affect military equipment needs;
- sales cycles that are long and difficult to predict;
- shifting response time and/or delays in the approval process associated with the export licenses we must obtain prior to the international shipment of certain of our military products;
- delays in military procurement schedules; and
- delays in the testing and acceptance of our products, including delays resulting from changes in customer specifications.

These factors can cause substantial fluctuations in sales of our FOG and TACNAV products from period to period. For example, sales of our FOG products increased $10.6 million, or 53%, from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 driven largely by increased sales in support of remotely operated weapons station programs. We anticipate a sequential decline in net sales related to our largest remote weapon systems customer of approximately $4 million during the fourth quarter of 2010. The Obama administration and Congress may change defense spending priorities, either in conjunction with the decision to commence troop withdrawals from Iraq and Afghanistan or for other reasons. Moreover, government customers and their contractors can generally cancel orders for our products for convenience or decline to exercise previously disclosed contract options. Even under firm orders with government customers, funding must often be appropriated in the budget process in order for the government to complete the contract. The cancellation of or failure to fund orders for our products could substantially reduce our net sales and results of operations. For example, our recent contract award from the U.S. Coast Guard for our mini-VSAT Broadband service does not impose any minimum order quantity, and the U.S. Coast Guard could order substantially fewer products and services than we anticipate.

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

KVH products sold to customers in the defense industry are purchased through orders that can generally range in size from several hundred thousand dollars to more than one million dollars. For example, in July 2010, we received a $13.0 million TACNAV products order and in October 2010, we also received a $1.1 million fiber optic gyro contract. As a result, the delay or cancellation of a single order could materially reduce our net sales and results of operations. We continue to experience unanticipated delays in defense orders, which make our revenues and operating results less predictable. Because our guidance and stabilization products typically have relatively higher product gross margins than our mobile communications products, the loss of an order for guidance and stabilization products could have a disproportionately adverse effect on our results of operations.

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

We derive a significant portion of our guidance and stabilization revenues from a small number of customers, most of whom are contractors for the U.S. Government. Our top four guidance and stabilization customers in 2009 accounted for approximately 27% of our net sales in that year, and 30% of our net sales for the first nine months of 2010. The loss of business from any of these customers could substantially reduce our net sales and results of operations and could seriously harm our business. Since we are often awarded a contract as a subcontractor to a major defense supplier that is engaged in a competitive bidding process as prime contractor for a major weapons procurement program, our revenues depend significantly on the success of the prime contractors with which we align ourselves. For example, our largest remote weapon systems customer accounted for approximately 16% and 17% of our net sales in the three and nine months ended September 30, 2010, respectively. In addition, a subcontractor to this customer accounted for approximately 4% and 6% of our net sales in the three and nine months ended September 30, 2010, respectively. We anticipate a sequential decline in net sales related to our largest remote weapon systems customer of approximately $4 million during the fourth quarter of 2010.

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

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

We rely on Inmarsat for satellite communications services for our mini-M, Fleet and FleetBroadband compatible TracPhone products. SES World Skies, Eutelsat, Sky Perfect-JSAT, GE Satellite, Telesat, EchoStar, Star One and Optus currently provide the satellite capacity to support the mini-VSAT Broadband service and our TracPhone V7. In addition, we have agreements with various teleports and Internet Service Providers (ISPs) around the globe to support the mini-VSAT Broadband service.

If customers become dissatisfied with the programming, pricing, service, availability or other aspects of any of these satellite services, or if any one or more of these services becomes unavailable for any reason, we could suffer a substantial decline in sales of our satellite products. There may be no alternative service provider available in a particular geographic area, and our technology may not be compatible with that of any alternative service provider that may be available. In addition, the unexpected failure of a satellite could disrupt the availability of programming and services, which could reduce the demand for, or customer satisfaction with, our products.

We rely upon spread spectrum communications technology developed by ViaSat and transmitted by third-party satellite providers to permit two-way broadband Internet via our 24-inch diameter TracPhone V7 antenna, and any disruption in the availability of this technology could adversely affect sales.

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

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

It is our intent to continue to invest in and deploy the mini-VSAT Broadband network on a global basis in cooperation with ViaSat under the terms of a 10-year agreement announced in July 2008. As part of the coverage expansion, we agreed to acquire satellite capacity from Ku-band satellite operators and are in the process of purchasing new regional satellite hubs from ViaSat. Each satellite hub represents a substantial capital investment. During the deployment period, we expect to see a substantial increase in costs associated with the buildout of the mini-VSAT Broadband global infrastructure and support capability. In the short term KVH and ViaSat will be covering the operational cost per transponder access until sufficient subscribers join the network and allow us to reach a breakeven point on our transponder and other network service costs, which may not occur. We currently estimate that, on average, it will require at least nine months to reach the breakeven point, i.e., offsetting these incremental network costs, once the service is turned on for a new coverage region. However, certain regions that are essential for our global coverage may exceed this time period before being profitable or may not be profitable. In addition, should an insufficient number of subscribers activate within a region, our operations may continue below the breakeven level for a longer duration and adversely affect our operating results and cash levels.

High fuel prices, tight credit availability and environmental concerns are adversely affecting sales of our mobile communications products.

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

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

Although we have historically manufactured and sourced raw materials for the majority of our products in the U.S., in order for us to compete with lower priced competitive products while also improving our profitability, we have found it desirable to source raw materials and manufactured components from foreign countries such as China and Mexico. Our increased reliance on foreign manufacturing and/or raw material supply has lengthened our supply chain and increased the risk that a disruption in that supply chain could have a material adverse affect on our operations and financial performance.

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

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

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

We obtain many key components for our products from third-party suppliers, and in some cases we use a single or a limited number of suppliers. Any interruption in supply could impair our ability to deliver our products until we identify and qualify a new source of supply, which could take several weeks, months or longer and could increase our costs significantly. Suppliers might change or discontinue key components, which could require us to modify our product designs. For example, in the past, we have experienced changes in the chemicals used to coat our optical fiber, which changed its characteristics and thereby necessitated design modifications. In general, we do not have written long-term supply agreements with our suppliers but instead purchase components through purchase orders, which expose us to potential price increases and termination of supply without notice or recourse. It is generally not our practice to carry significant inventories of product components, and this could magnify the impact of the loss of a supplier. If we are required to use a new source of materials or components, it could also result in unexpected manufacturing difficulties and could affect product performance and reliability. In addition, from time to time, lead times for certain components can increase significantly due to imbalances in overall market supply and demand. This, in turn, could limit our ability to satisfy the demand for certain of our products on a timely basis, and could result in some customer orders being rescheduled or cancelled.

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

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

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

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

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

We have previously expanded our operations to pursue existing and potential market opportunities, and we are continuing to expand our international operations in connection with the build-out of our mini-VSAT network. This growth placed a strain on our personnel, management, financial and other resources. Although both our guidance and stabilization revenue and our mobile communications revenue have increased dramatically in 2010, they have both declined dramatically in earlier periods in response to economic conditions, weak consumer demand and other factors. If, in the future, any portion of our business grows more rapidly than we anticipate and we fail to manage that growth properly, we may incur unnecessary expenses, and the efficiency of our operations may decline. If we are unable to adjust our operating expenses on a timely basis in response to changes in revenue cycles, our results of operations may be harmed. To manage changes in our rate of growth effectively, we must, among other things:

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

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

To meet our growth objectives, we must attract and retain highly skilled technical, operational, managerial and sales and marketing personnel. If we fail to attract and retain the necessary personnel, we may be unable to achieve our business objectives and may lose our competitive position, which could lead to a significant decline in net sales. We face significant competition for these skilled professionals from other companies, research and academic institutions, government entities and other organizations.

Our success depends on the services of our executive officers.

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

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

Historically, sales to customers outside the United States and Canada have accounted for a significant portion of our net sales. We have foreign sales offices in Denmark, Singapore and Norway and we otherwise support our international sales from our operations in the United States. Our limited operations in foreign countries may impair our ability to compete successfully in international markets and to meet the service and support needs of our customers in countries where we have no infrastructure. We are subject to a number of risks associated with our international business activities, which may increase our costs and require significant management attention. These risks include:

technical challenges we may face in adapting our mobile communication products to function with different satellite services and technology in use in various regions around the world;

satisfaction of international regulatory requirements and delays and costs associated with procurement of any necessary licenses or permits;

restrictions on the sale of certain guidance and stabilization products to foreign military and government customers;

increased costs of providing customer support in multiple languages;

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- potentially adverse tax consequences, including restrictions on the repatriation of earnings;
- protectionist laws and business practices that favor local competitors, which could slow our growth in international markets;
- potentially longer sales cycles, which could slow our revenue growth from international sales;
- potentially longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- losses arising from foreign currency exchange rate fluctuations; and
- economic and political instability in some international markets.

Exports of certain guidance and stabilization products are subject to the International Traffic in Arms Regulations and require a license from the U.S. Department of State prior to shipment.

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

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

Our ability to compete depends significantly upon our patents, our source code and our other proprietary technology. The steps we have taken to protect our technology may be inadequate to prevent others from using what we regard as our technology to compete with us. Our patents could be challenged, invalidated or circumvented, and the rights we have under our patents could provide no competitive advantages. Existing trade secrets, copyright and trademark laws offer only limited protection. In addition, the laws of some foreign countries do not protect our proprietary technology to the same extent as the laws of the United States, which could increase the likelihood of misappropriation. Furthermore, other companies could independently develop similar or superior technology without violating our intellectual property rights. Any misappropriation of our technology or the development of competing technology could seriously harm our competitive position, which could lead to a substantial reduction in net sales.

If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome, disruptive and expensive, distract the attention of management, and there can be no assurance that we would prevail.

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

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

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

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

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

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

We have at times experienced significant fluctuations in our net sales and results of operations from one quarter to the next. Our future net sales and results of operations could vary significantly from quarter to quarter due to a number of factors, many of which are outside our control. Accordingly, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that our net sales or results of operations in a quarter will fall below the expectations of securities analysts or investors. If this occurs, the market price of our common stock could fall significantly. Our results of operations in any quarter can fluctuate for many reasons, including:

- changes in demand for our mobile communications products and guidance and stabilization products;
- the timing and size of individual orders from military customers;
- the mix of products we sell;
- our ability to manufacture, test and deliver products in a timely and cost-effective manner, including the availability and timely delivery of components and subassemblies from our suppliers;
- our success in winning competitions for orders;
- the timing of new product introductions by us or our competitors;
- expense incurred in pursuing acquisitions;
- market and competitive pricing pressures;
- general economic climate; and
- seasonality of pleasure boat and recreational vehicle usage.

A large portion of our expenses, including expenses for network infrastructure, facilities, equipment, and personnel, are relatively fixed. Accordingly, if our net sales decline or do not grow as much as we anticipate, we might be unable to maintain or improve our operating margins. Any failure to achieve anticipated net sales could therefore significantly harm our operating results for a particular fiscal period.

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

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to regular review and audit by both domestic and foreign tax authorities and to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our condensed consolidated financial statements and may materially affect our income tax expense, net income (loss), and cash flows in the period in which such determination is made.

Deferred tax assets are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. A valuation allowance reduces deferred tax assets to estimated realizable value, which assumes that it is more likely than not that we will be able to generate sufficient future taxable income to realize the net carrying value. We review our deferred tax assets and valuation allowance on a quarterly basis. As part of our review, we consider positive and negative evidence, including cumulative results in recent years.

If, during our quarterly reviews of our deferred tax assets, we determine that it is more likely than not that we will not be able to generate sufficient future taxable income to realize the net carrying value of our deferred tax assets, we will record a valuation allowance to reduce the tax assets to estimated realizable value. This could result in a material income tax charge.

The market price of our common stock may be volatile.

Our stock price has historically been volatile. From November 1, 2008 to September 30, 2010, the trading price of our common stock ranged from $16.66 to $2.81. Many factors may cause the market price of our common stock to fluctuate, including:

- variations in our quarterly results of operations;
- the introduction of new products by us or our competitors;
- changing needs of military customers;
- changes in estimates of our performance or recommendations by securities analysts;
- the hiring or departure of key personnel;

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- acquisitions or strategic alliances involving us or our competitors;
- market conditions in our industries; and
- the global macroeconomic and geopolitical environment.

In addition, the stock market can experience extreme price and volume fluctuations. Major stock market indices experienced dramatic declines in 2008 and in the first quarter of 2009. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company s stock drops significantly, stockholders often institute securities litigation against that company. Any such litigation could cause us to incur significant expenses defending against the claim, divert the time and attention of our management and result in significant damages.

Acquisitions may disrupt our operations or adversely affect our results.

We evaluate strategic acquisition opportunities to acquire other businesses as they arise, such as our recent acquisition of Virtek Communication. The expenses we incur evaluating and pursuing this and other such acquisitions could have a material adverse effect on our results of operations. For example, we incurred $0.5 million of transaction expenses in the three months ended September 30, 2010 in connection with the Virtek Communication acquisition. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational and other benefits we anticipate from any acquisition. Competition for acquisition opportunities could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, our approach to acquisitions may involve a number of special financial and business risks, such as:

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

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

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

the ability of our Board of Directors to issue preferred stock, and determine its terms, without a stockholder vote;

the classification of our Board of Directors, which effectively prevents stockholders from electing a majority of the directors at any one annual meeting of stockholders;

the limitation that directors may be removed only for cause by the affirmative vote of the holders of two-thirds of our shares of capital stock entitled to vote;

the prohibition against stockholder actions by written consent;

the inability of stockholders to call a special meeting of stockholders; and

advance notice requirements for stockholder proposals and director nominations.

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

On November 26, 2008, our Board of Directors authorized a program to repurchase up to one million shares of our common stock. The repurchase program is funded using our existing cash, cash equivalents, marketable securities and future cash flows. Under the repurchase program, at management s discretion, we may repurchase shares on the open market from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases depends on availability of shares, price, market conditions, alternative uses of capital, and applicable regulatory requirements. The program may be modified, suspended or terminated at any time without prior notice. The repurchase program has no expiration date. There were no other repurchase programs outstanding during the nine months ended September 30, 2010, and no repurchase programs expired during the period.

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet be Purchased Under the Programs
July 1, 2010 July 31, 2010				798,676
August 1, 2010 August 31, 2010				798,676
September 1, 2010 September 30, 2010				798,676
Total				

ITEM 6. EXHIBITS

Exhibits:

Exhibit No.	Description	Filed with this Form 10-Q	Incorporated by Reference Form	Filing Date	Exhibit No.
3.1	Amended and Restated Certificate of Incorporation, as amended		10-Q	August 6, 2010	3.1
3.3	Amended, Restated and Corrected Bylaws of KVH Industries, Inc.		8-K	July 31, 2007	3
4.1	Specimen certificate for the common stock		S-1/A	March 22, 1996	4.1
10.1	Purchase and Sale Agreement by and between Jefferson-Pilot Investments, Inc. and KVH Industries, Inc.		10-Q	August 6, 2010	10.3
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer	X			
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer	X			
32.1	Section 1350 certification of principal executive officer	X			
32.2	Section 1350 certification of principal financial officer	X			

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SIGNATURE

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

Date: November 4, 2010

KVH Industries, Inc.

By: /s/ PATRICK J. SPRATT

Patrick J. Spratt

(Duly Authorized Officer and Chief Financial and Accounting Officer)

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32.1	Section 1350 certification of principal executive officer	X			
32.2	Section 1350 certification of principal financial officer	X			