

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1997

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 (I.R.S. Employer incorporation or organization) Identification No.)

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

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

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

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

Date	Class	Outstanding shares
April 8, 1997	Common Stock, par value \$0.01 per, share	7,042,120

KVH INDUSTRIES, INC. AND SUBSIDIARY
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Part I. Financial Information

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	March 31, 1997 (Unaudited)	December 31, 1996 (Audited)
	-----	-----
Assets:		
Current assets:		
Cash and cash equivalents	\$ 7,967,580	7,005,682
Accounts receivable, net	4,907,307	6,130,567
Contract receivables	56,943	29,226
Costs and estimated earnings in excess of billings on uncompleted contracts	994,762	835,720
Inventories	3,347,568	3,242,270
Prepaid expenses and other deposits	81,760	179,705
Deferred income taxes	134,552	134,552
	-----	-----
Total current assets	17,490,472	17,557,722
	-----	-----
Property and equipment, net	4,015,673	3,881,088
Other assets, less accumulated amortization	16,236	25,978
Deferred income taxes	88,861	88,862
	-----	-----
Total assets	\$21,611,242	21,553,650
	=====	=====
Liabilities and stockholders' equity:		
Current liabilities:		
Current lease obligation	\$	\$ 57,676
		46,924
Accounts payable	1,373,309	1,031,309
Accrued expenses	1,014,077	1,371,193
Customer deposits	1,975,413	2,527,500
	-----	-----
Total current liabilities	4,409,723	4,987,678
	-----	-----
Obligations under capital leases, excluding current installments	0	3,341
	-----	-----
Total liabilities	4,409,723	4,991,019
	-----	-----
Stockholders' equity:		
Common stock	70,421	69,932
Additional paid-in capital	14,919,216	14,884,806
Accumulated earnings	2,211,882	1,607,893
	-----	-----
Total stockholders' equity	17,201,519	16,562,631
	-----	-----
Total liabilities and stockholders' equity	\$21,611,242	21,553,650
	=====	=====

See accompanying notes to financial statements.

Item 1. Financial Statements.

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

	Three months ended	
	March 31,	
	1997	1996
	-----	-----
Net sales	\$ 5,916,329	4,780,659
Cost of sales	3,179,029	2,692,389
	-----	-----
Gross profit	2,737,300	2,088,270
Operating expenses:		
Research and development	605,946	609,721
Sales and marketing	779,099	858,221
Administration	476,551	316,135
	-----	-----
Income from operations	875,704	304,193
Other income (expense):		
Other income (expense)	(7,040)	1,251
Interest income, net	86,486	0
Foreign currency gain (loss)	(3,874)	7,166
	-----	-----
Income before income taxes	951,276	312,610
Income tax expense	347,287	125,042
	=====	=====
Net income	\$ 603,989	187,568
	=====	=====
Per share information:		
Income per share	\$ 0.08	0.03
Number of shares used in per share calculation	7,492,614	5,736,812

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements.

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

	Three months ended	
	March 31,	
	1997	1996
	-----	-----
Cash flow from operations:		
Net income	\$ 603,989	187,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157,393	44,994
Provision for deferred taxes	0	116,150
Decrease in accounts and contract receivables	1,195,543	645,697
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts	(159,042)	78,647
Increase in inventories	(105,298)	(612,250)
Decrease in prepaid expenses and other deposits	97,945	53,488
Increase in accounts payable	342,000	338,226
Decrease in accrued expenses	(357,116)	(18,397)
Decrease in customer deposits	(552,087)	(150,000)
	-----	-----
Net operating cash provided by operating activities	1,223,327	684,123
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(282,235)	(482,620)
	-----	-----
Net cash (used in) investing activities:	(282,235)	(482,620)
	-----	-----
Cash flow from financing activities:		
Deferred registration cost	0	(494,598)
Repayments of obligations under capital lease	(14,093)	(12,692)
Proceeds from issuance of capital stock, exercise of warrants and stock options	34,899	598
	-----	-----
Net cash provided by (used in) financing activities	20,806	(506,692)
Net increase (decrease) in cash and cash equivalents	961,898	(305,189)
	-----	-----
Cash and cash equivalents at beginning of period .	7,005,682	895,677
Cash and cash equivalents at end of period	\$ 7,967,580	590,488
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,237	966

See the accompanying notes to consolidated financial statements.

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
March 31, 1997 and 1996
(Unaudited)

(1.) The accompanying consolidated financial statements of KVH Industries, Inc. and subsidiary (the "Company") for the periods ended March 31, 1997 and March 31, 1996 have been prepared in accordance with generally accepted accounting principles and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These financial statements have not been audited by independent public accountants, but include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows for such periods. These consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K dated March 24, 1997 as filed with the Securities and Exchange Commission, a copy of which is available from the Company upon request.

(2.) Inventories (in thousands of dollars) at March 31, 1997 and December 31, 1996 include the costs of material, labor and factory overhead. Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	1997	1996
Raw materials	\$2,093	\$1,888
Work in process	364	714
Finished goods	891	640
	\$3,348	\$3,242

(3.) In May of 1996 the Company purchased a 75,000 square foot facility for \$2,000,000. Manufacturing operations were relocated to the new facility upon completion of the first phase of facility renovations in January of 1997. The manufacturing renovation phase cost approximately \$700,000. The Company is in the process of completing the remaining facility renovations that are estimated to cost approximately \$1,000,000. When the second phase of renovations are completed in the second half of 1997, the remainder of the Company's operations will be relocated to the new facility. Upon relocation of operations to the new facility, the Company's 27,000 square foot existing facility will be utilized as warehouse space.

(4.) Income tax expense has been calculated using an estimated tax rate of 37% for the three months ended March 31, 1997 and 40% for the three months ended March 31, 1996. The decrease in the rate in 1997 arises from the application of the research and development tax credits against the current income tax liability. The tax rates utilized in the calculation of income tax expense differ from the federal statutory rate of 34% primarily due to state income tax expense net of the associated federal tax benefit.

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

"SafeHarbor" statement under the Private Securities Litigation Reform Act of 1995.

With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q include certain forward looking statements that involve risks and uncertainties. Among the risks and uncertainties to which the Company is subject are the risks associated with managing the Company's inventory in light of product life cycles and technological change, the Company's relationship with its significant customers, market acceptance of new product offerings in the emerging mobile satellite communications market, reliance on satellite networks, reliance on a limited number of products and customers, dependence on key personnel and fluctuations in annual and quarterly performance. As a consequence of these factors the actual results realized by the Company could differ materially from the statements made herein. Shareholders of the Company are cautioned not to place undue reliance on forward looking statements made in the Quarterly Report on Form 10-Q. This report should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K dated March 24, 1997 as filed with the Securities and Exchange Commission, a copy of which is available from the Company upon request.

NET INCOME AND EARNINGS PER SHARE - Net income and earnings per share for the three months ended March 31, 1997 and 1996 were \$603,989 and \$0.08 per share and \$187,568 and \$0.03 per share respectively. Earnings per share increased \$0.05 per share despite a 31% increase in the number of shares used in the per share calculation. The share increase results primarily from shares issued as a result of the Company's initial public offering in April 1997.

NET SALES - Net sales grew \$1,135,670 or a 24% increase when compared with first quarter 1996 revenues of \$4,780,659. Navigation product sales represented 94% of the sales increase while mobile satellite communications products represented 6% of the first quarter increase. Navigation sales increases resulted from shipments of TACNAV products to the governments of Sweden, the United States and Canada. TACNAV product shipments are scheduled throughout the remainder of 1997. Communications sales increases result from shipments of the TracPhone to American Mobile Satellite Corporation ("AMSC"). The remainder of the AMSC TracPhone shipments will occur in the second quarter of 1997. AMSC has not exercised additional options available under the contract and the Company does not anticipate additional orders this year.

GROSS PROFIT - Gross profit increased \$649,030 or 31% in the first quarter of 1997 when compared with the first quarter of 1996. Gross profit as a percentage of net sales represented 46% of net sales in 1997 and 44% of net sales in 1996. The improvement in gross profit results from the shipment of a greater proportion of higher margin TACNAV systems in the first quarter as a result of the Swedish TACNAV order.

OPERATING EXPENSES - Research and development remained relatively unchanged when compared with the first quarter of 1996. Research and development costs are anticipated to rise slightly throughout the year. Sales and marketing expense decreased \$79,122 or 9% in the first quarter of 1997 when compared with the first quarter of 1996. The decrease in sales and marketing expense in the first quarter of 1997 resulted from a reduction of product introduction costs that were incurred in first quarter of 1996 and did not reoccur in 1997. Sales and marketing expense is anticipated to increase throughout 1997 in response to new product introductions and costs associated with establishing new geographic markets. General and administrative expense increased by \$160,416 or 51% in the first quarter of 1997 when compared with the first quarter of 1996. General and administrative cost increases result from costs incurred as a consequence of becoming a publicly traded company such as: directors' and officers' insurance, legal fees and investor relations costs. General and administrative costs are anticipated to increase gradually throughout 1997.

OTHER INCOME (EXPENSE) - Other income (expense) is made up of interest expense income net, other other income (expense), and foreign currency translation gains. The year to year change in other income (expense) is immaterial. The increase in interest income resulted from the investment of the proceeds of the initial public offering in fully-guaranteed, government short-term securities.

INCOME TAXES - Income tax expense increased \$222,245 or 178% in the first quarter of 1997 when compared with the first quarter of 1996. The income tax rate decreased by 3% in 1997 from approximately 40% in 1996 due to the application of research and development tax credits to the current tax liability.

LIQUIDITY AND CAPITAL RESOURCES - Working capital increased by \$510,705 in the first quarter of 1997 from December 31, 1996 due to the liquidation of customer deposits associated with the shipment of navigation defense orders. Cash and cash equivalents were \$7,967,580 and \$7,005,682 on March 31, 1997 and December 31, 1996 respectively. The Company believes that cash generated from operations, amounts available under its revolving bank borrowing facility and the net proceeds of the initial public offering will be sufficient to fund its necessary operations and planned capital expenditures for at least the next twelve months.

CAPITAL EXPENDITURES - Net fixed assets increased approximately \$134,585 in the first quarter of 1997 when compared with December 31, 1996. The increase in fixed assets is made up primarily of capital improvements associated with the renovation of the Company's new 75,000 square foot facility. The Company believes the remaining renovations related to the new facility will cost approximately \$1,000,000.

OTHER MATTERS - In March of 1997, the Financial Accounting Standards Board issued Statement Number 128, "Earnings Per Share", which establishes standards of computing and presenting earnings per share. The Company will adopt the provisions of this new standard effective December 31, 1997, and all prior periods will be restated. The effect of adoption will not have a material impact on the Company's financial condition, results of operations or cash flows.

Part II. Other Information

Item 1. Legal Proceedings.

None

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

1. Exhibit 11 - Computation of Earnings Per Common Share: Three Months Ended March 31, 1997 and 1996.

2. Exhibit 27 - Financial Data Schedule: Three Months Ended March 31, 1997.

3. No reports on Form 8-K were filed during the quarter for which this report was filed.

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.

KVH Industries, Inc.

By: /s/ Richard C. Forsyth
Richard C. Forsyth
(Chief Financial and Accounting Officer)

Date: April 17, 1997

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

	For the three months ended March 31,	
	1997	1996
	-----	-----
Net Earnings	604	187
Shares:		
Weighted average number of common shares outstanding	7,014	1,616
Additional shares assuming conversion of:		
Convertible preferred stock	0	3,245
Stock options and warrants	478	876
	=====	=====
Average common shares outstanding and equivalents	7,492	5,737
	=====	=====
Net earnings per common share	\$0.08	\$0.03

Financial Data Schedule March 31, 1997

3-MOS			
	DEC-31-1997		
		MAR-31-1997	
			7,967,580
			0
		5,039,580	
			132,446
			3,347,568
	17,490,472		
		5,782,363	
		1,766,690	
		21,611,242	
4,409,723			0
	0		
		0	
			70,421
			17,131,098
21,611,242			
		5,916,329	
	5,916,329		
			3,179,029
		3,179,029	
	1,786,024		
		0	
	0		
		951,276	
			347,287
603,989			
		0	
		0	
			0
		603,989	
			.08
			.08