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

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**FORM 10-Q**

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(Mark One)  
 **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-28082

**KVH Industries, Inc.**

(Exact Name of Registrant as Specified in its Charter)

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

**05-0420589**  
(IRS Employer  
Identification Number)

**50 Enterprise Center, Middletown, RI 02842**  
(Address of Principal Executive Offices)

**(401) 847-3327**  
(Registrant's Telephone Number, Including Area Code)

Indicate by an (X) whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by an (X) whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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

<u>Date</u>	<u>Class</u>	<u>Outstanding shares</u>
July 30, 2004	Common Stock, par value \$0.01 per share	14,441,875

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**KVH INDUSTRIES, INC. AND SUBSIDIARY**  
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**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****KVH INDUSTRIES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited)

	June 30, 2004	December 31, 2003
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,062,175	\$ 2,848,755
Marketable securities	35,049,532	—
Accounts receivable, net of allowance for doubtful accounts of approximately \$154,000 in 2004 and \$120,000 in 2003	9,328,701	11,353,175
Costs and estimated earnings in excess of billings on uncompleted contracts	489,041	415,415
Inventories	11,014,086	6,298,151
Prepaid expenses and other deposits	744,271	1,229,064
Deferred income taxes	512,904	650,157
<b>Total current assets</b>	<b>69,200,710</b>	<b>22,794,717</b>
Property and equipment, net	8,678,803	8,722,854
Other assets, less accumulated amortization of approximately \$827,000 in 2004 and \$764,000 in 2003	252,189	315,201
Deferred income taxes	2,238,430	2,238,430
<b>Total assets</b>	<b>\$ 80,370,132</b>	<b>\$ 34,071,202</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,689,797	\$ 3,590,494
Accrued compensation and employee-related expenses	1,811,558	1,646,776
Accrued professional fees and license and settlement costs	856,072	644,121
Accrued loss on TracVision A5 non-cancelable purchase commitments	1,629,970	—
Accrued product warranty costs	516,138	139,689
Accrued other	548,442	75,692
Current portion of long-term debt	110,423	109,954
Customer deposits	27,422	27,422
<b>Total current liabilities</b>	<b>9,189,822</b>	<b>6,234,148</b>
Long-term debt, excluding current portion	2,451,200	2,503,881
<b>Total liabilities</b>	<b>11,641,022</b>	<b>8,738,029</b>
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; none issued	—	—
Common stock, \$0.01 par value. Authorized 20,000,000 shares; issued and outstanding 14,430,536 as of June 30, 2004 and 11,590,103 as of December 31, 2003	144,305	115,901
Additional paid-in capital	84,739,301	36,505,751
Accumulated deficit	(16,108,349)	(11,288,479)
Other comprehensive loss	(46,147)	—
<b>Total stockholders' equity</b>	<b>68,729,110</b>	<b>25,333,173</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 80,370,132</b>	<b>\$ 34,071,202</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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## ITEM 1. Financial Statements (continued)

**KVH INDUSTRIES, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net sales	\$ 14,532,123	\$ 14,384,424	\$ 32,529,001	\$ 27,503,094
TracVision A5 revaluation charge	2,413,420	—	2,413,420	—
All other cost of sales	9,947,088	7,808,259	20,971,394	14,968,469
	<u>12,360,508</u>	<u>7,808,259</u>	<u>23,384,814</u>	<u>14,968,469</u>
Total costs of sales				
Gross profit	2,171,615	6,576,165	9,144,187	12,534,625
Operating expenses:				
Research & development	1,810,465	2,311,062	3,619,219	4,425,564
Sales & marketing	3,828,088	2,600,100	7,662,357	5,232,780
Administration	1,513,358	1,101,793	2,627,336	2,079,618
	<u>(4,980,296)</u>	<u>563,210</u>	<u>(4,764,725)</u>	<u>796,663</u>
Income (loss) from operations				
Other expense:				
Other income (expense)	131,884	(44,680)	173,066	(46,469)
Interest expense, net	(48,778)	(39,545)	(90,958)	(78,235)
	<u>(4,897,190)</u>	<u>478,985</u>	<u>(4,682,617)</u>	<u>671,959</u>
Income (loss) before income taxes				
Income tax expense	(50,610)	(41,020)	(137,253)	(51,006)
	<u>\$ (4,947,800)</u>	<u>\$ 437,965</u>	<u>\$ (4,819,870)</u>	<u>\$ 620,953</u>
Net income (loss)				
Per share information:				
Earnings (loss) per share				
Basic	\$ (0.34)	\$ 0.04	\$ (0.35)	\$ 0.06
Diluted	\$ (0.34)	\$ 0.04	\$ (0.35)	\$ 0.05
Number of shares used in per share calculation:				
Basic	14,419,542	11,329,443	13,750,522	11,283,661
Diluted	14,419,542	11,939,341	13,750,522	11,845,926

See accompanying Notes to Condensed Consolidated Financial Statements.

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## ITEM 1. Financial Statements (continued)

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

	Six months ended June 30,	
	2004	2003
<b>Operating activities:</b>		
Net income (loss)	\$ (4,819,870)	\$ 620,953
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,001,201	800,618
Deferred income taxes	137,253	51,006
Provision for doubtful accounts	100,505	—
Loss on disposal of equipment	104,603	—
TracVision A5 revaluation and related charges	2,465,545	—
Changes in operating assets and liabilities:		
Accounts and contracts receivable	1,923,969	(766,666)
Costs and estimated earnings in excess of billings on uncompleted contracts	(73,626)	157,912
Inventories	(5,551,510)	(231,342)
Prepaid expenses and other deposits	104,311	(49,114)
Accounts payable	99,303	714,721
Accrued expenses	1,225,932	141,861
Customer deposits	—	(60,435)
Net cash provided by (used in) operating activities	(3,282,384)	1,379,514
<b>Investing activities:</b>		
Purchase of marketable securities	(35,095,679)	—
Capital expenditures	(1,003,838)	(1,106,998)
Proceeds from sale of equipment	5,097	—
Net cash used in investing activities	(36,094,420)	(1,106,998)
<b>Financing activities:</b>		
Repayments of long-term debt	(52,212)	(45,817)
Proceeds from sale of common stock, net	48,369,719	—
Employee stock option and stock purchase transactions	272,717	932,757
Net cash provided by financing activities	48,590,224	886,940
Net increase in cash and cash equivalents	9,213,420	1,159,456
Cash and cash equivalents at beginning of period	2,848,755	7,239,255
Cash and cash equivalents at end of period	\$ 12,062,175	\$ 8,398,711
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$ 90,424	\$ 106,363

See accompanying Notes to Condensed Consolidated Financial Statements.

**ITEM 1. Financial Statements (continued)**

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

**(1) Basis of Presentation**

The accompanying Condensed Consolidated Financial Statements of KVH Industries, Inc., and its wholly owned subsidiary, KVH Europe A/S (collectively, the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Regulation S-X. All intercompany accounts and transactions have been eliminated in consolidation. The Condensed Consolidated 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 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 filed on March 15, 2004 with the Securities and Exchange Commission. Copies of the Company's Form 10-K are available upon request. The results for the three and six months ended June 30, 2004 are not necessarily indicative of operating results for the remainder of the year.

**(2) Stock-based Compensation**

KVH accounts for its various stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." The following pro forma information is based on provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," issued in December 2002.

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>Net income (loss) as reported</b>	<b>\$ (4,948)</b>	<b>\$ 438</b>	<b>\$ (4,820)</b>	<b>\$ 621</b>
Compensation expense under SFAS 123, net of tax at expected tax rate for the period	(439)	(164)	(823)	(291)
<b>Pro forma net income (loss)</b>	<b>\$ (5,387)</b>	<b>\$ 274</b>	<b>\$ (5,643)</b>	<b>\$ 330</b>
<b>Income (loss) per share – basic</b>				
As reported	\$ (0.34)	\$ 0.04	\$ (0.35)	\$ 0.06
Pro forma	\$ (0.37)	\$ 0.02	\$ (0.41)	\$ 0.03
<b>Income (loss) per share – diluted</b>				
As reported	\$ (0.34)	\$ 0.04	\$ (0.35)	\$ 0.05
Pro forma	\$ (0.37)	\$ 0.02	\$ (0.41)	\$ 0.03

**(3) Income per Common Share**

Basic net income per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined in accordance with the treasury-stock accounting method.

For the three and six months ended June 30, 2004, common stock equivalents equaled approximately 318,000 and 267,000, respectively, and have been excluded from the calculation of weighted average number of diluted common shares, as their effect would be antidilutive. Total common stock options outstanding as of June 30, 2004 and 2003 equaled 1,132,466 and 1,050,253, respectively.

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

**(3) Income per Common Share (continued)**

A reconciliation of weighted average common shares outstanding to weighted average common shares outstanding assuming dilution is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net income (loss)	\$ (4,948)	\$ 438	\$ (4,820)	\$ 621
Weighted average common shares outstanding – basic	14,420	11,329	13,751	11,284
Incremental common shares issuable: stock options	—	610	—	562
Weighted average common shares outstanding assuming dilution	14,420	11,939	13,751	11,846
Income (loss) per share – Basic	\$ (0.34)	\$ 0.04	\$ (0.35)	\$ 0.06
Income (loss) per share – Diluted	\$ (0.34)	\$ 0.04	\$ (0.35)	\$ 0.05

**(4) Cash, cash equivalents and marketable securities**

In accordance with the Company's investment policy, cash in excess of operational needs is invested in investment grade corporate and U.S. government debt as well as certain asset backed securities. The Company considers all highly liquid investments with an original maturity of ninety days or less, as of the date of purchase, to be cash equivalents. The Company determines the appropriate classification of marketable securities at each balance sheet date. Available-for-sale marketable securities are carried at their fair value with unrealized gains and losses included in accumulated other comprehensive income (loss) in the accompanying balance sheet.

**(5) Inventories**

Inventories are stated at the lower of cost or market using the first-in first-out costing method. Inventories as of June 30, 2004, and December 31, 2003, include the costs of material, labor, and factory overhead. Inventories consist of the following:

	June 30, 2004	December 31, 2003
Raw materials	\$ 5,948	\$ 4,571
Work in process	331	49
Finished goods	4,735	1,678
	<u>\$11,014</u>	<u>\$ 6,298</u>

In July 2004, KVH initiated a new pricing initiative for the TracVision A5 mobile satellite antenna. As a result of the associated price reduction, and in accordance with Accounting Research Bulletin 43, KVH recognized \$2.6 million in TracVision A5 inventory revaluation and other related pricing initiative losses. Total charges for both the three and six month periods ended June 30, 2004 were as follows:

Loss on non-cancelable future purchase commitments	\$1,480
Revaluation of current inventory to net realizable value	836
Loss on disposal of TracVision A5 tooling and equipment <sup>(1)</sup>	97
TracVision A5 revaluation charge recognized in cost of sales	<u>\$2,413</u>
Other TracVision A5 pricing initiative charges not included in cost of sales	150
<b>Total TracVision A5 revaluation and other charges</b>	<u><b>\$2,563</b></u>

<sup>(1)</sup> For presentation purposes, loss on disposal of TracVision A5 tooling and equipment was included within the Statement of Cash Flow caption - Loss on disposal of equipment.

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

**(6) Common Stock Issuance**

On February 13, 2004, KVH completed an underwritten public offering of 2,750,000 shares of its common stock at \$18.75 per share. Net proceeds to KVH, after deducting all associated financing expenses, were approximately \$48.0 million and are expected to be used for working capital and general corporate purposes. Financing expenses totaled approximately \$3.6 million and included \$2.8 million in underwriters' fees. As of December 31, 2003, approximately \$380,000 in deferred financing fees was included within prepaid expenses and other deposits.

**(7) Comprehensive income (loss)**

Comprehensive loss includes net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from net loss. Specifically, the effects of unrealized gains or losses on available-for-sale marketable securities are separately included in accumulated other comprehensive income (loss) within stockholders' equity.

For the three and six months ended June 30, 2004 and 2003, the Company's comprehensive income (loss) is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net income (loss)	\$ (4,948)	\$ 438	\$ (4,820)	\$ 621
Unrealized loss on available-for-sale securities	(46)	—	(46)	—
Total comprehensive income (loss)	<u>\$ (4,994)</u>	<u>\$ 438</u>	<u>\$ (4,866)</u>	<u>\$ 621</u>

**(8) Segment Reporting**

Under common operational management, KVH designs, develops, manufactures and markets its mobile satellite communication products and defense-related navigation, guidance and stabilization products for use in a wide variety of applications. Products are generally sold directly to third-party consumer electronic dealers and retailers, or in the case of defense-related products, either to government contractors or directly to U.S. and other foreign government agencies. Primarily, sales originating in North America consist of sales within the United States and Canada and, to a lesser extent, Mexico, Asia/Pacific and some Latin and South American countries. North American sales also include all defense-related product sales throughout the world. Sales originating from KVH's Denmark office principally consist of sales into Western European countries, including the United Kingdom, France, Italy, and Spain, as well as a growing number of sales into Russia and certain Middle Eastern countries.

KVH operates in two geographic segments, exclusively in the satellite communication, navigation and guidance equipment industry, which it considers to be a single business activity. KVH has two primary product categories: mobile satellite communication products and defense-related navigation, guidance and stabilization products. Mobile satellite communication sales and services include automotive, marine and land mobile satellite communication equipment such as satellite-based telephone, television and broadband Internet connectivity equipment. Mobile satellite communication sales also include the reselling of certain wireless broadband and telephone communication services. Defense sales and services include sales of defense-related communication, navigation, guidance and stabilization equipment based upon digital compass and fiber optic sensor technology. Defense services also include development contract revenue.

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

**(8) Segment Reporting (continued)**

The following table provides, for the periods indicated, sales originating from the following geographic segments:

	<u>North American</u>	<u>European</u>	<u>Total</u>
<b>Three months ended June 30, 2004</b>			
Sales to: United States and Canada	\$ 10,732	\$ —	\$ 10,732
Europe	297	2,613	2,910
Other geographic areas	700	190	890
Intercompany sales	1,996	2	1,998
	<hr/>	<hr/>	<hr/>
Subtotal	13,725	2,805	16,530
Eliminations	(1,996)	(2)	(1,998)
	<hr/>	<hr/>	<hr/>
Net sales	\$ 11,729	\$ 2,803	\$ 14,532
	<hr/>	<hr/>	<hr/>
Segment net income (loss)	\$ (5,049)	\$ 101	\$ (4,948)
Depreciation and amortization	\$ 502	\$ 10	\$ 512
Total assets	\$ 76,999	\$ 3,371	\$ 80,370
<b>Three months ended June 30, 2003</b>			
Sales to: United States and Canada	\$ 11,204	\$ —	\$ 11,204
Europe	513	1,625	2,138
Other geographic areas	947	95	1,042
Intercompany sales	1,191	—	1,191
	<hr/>	<hr/>	<hr/>
Subtotal	13,855	1,720	15,575
Eliminations	(1,191)	—	(1,191)
	<hr/>	<hr/>	<hr/>
Net sales	\$ 12,664	\$ 1,720	\$ 14,384
	<hr/>	<hr/>	<hr/>
Segment net income	\$ 345	\$ 93	\$ 438
Depreciation and amortization	\$ 420	\$ 6	\$ 426
Total assets	\$ 32,669	\$ 2,180	\$ 34,849
<b>Six months ended June 30, 2004</b>			
Sales to: United States and Canada	\$ 24,898	\$ —	\$ 24,898
Europe	853	4,991	5,844
Other geographic areas	1,509	278	1,787
Intercompany sales	3,530	54	3,584
	<hr/>	<hr/>	<hr/>
Subtotal	30,790	5,323	36,113
Eliminations	(3,530)	(54)	(3,584)
	<hr/>	<hr/>	<hr/>
Net sales	\$ 27,260	\$ 5,269	\$ 32,529
	<hr/>	<hr/>	<hr/>
Segment net income (loss)	\$ (5,137)	\$ 317	\$ (4,820)
Depreciation and amortization	\$ 981	\$ 20	\$ 1,001
<b>Six months ended June 30, 2003</b>			
Sales to: United States and Canada	\$ 19,224	\$ —	\$ 19,224
Europe	2,362	3,102	5,464
Other geographic areas	2,661	154	2,815
Intercompany sales	2,448	—	2,448
	<hr/>	<hr/>	<hr/>
Subtotal	26,695	3,256	29,951
Eliminations	(2,448)	—	(2,448)
	<hr/>	<hr/>	<hr/>
Net sales	\$ 24,247	\$ 3,256	\$ 27,503
	<hr/>	<hr/>	<hr/>
Segment net income	\$ 505	\$ 116	\$ 621
Depreciation and amortization	\$ 790	\$ 11	\$ 801

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

**(9) Business and Credit Concentrations**

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net sales to foreign customers outside the U.S. and Canada	26.1 %	22.1 %	23.5 %	30.1 %
Net sales to mobile satellite communications customer A	5.0 %	11.3 %	12.2 %	9.0 %
Net sales to mobile satellite communications customer B	11.0 %	6.0 %	9.0 %	6.6 %

**(10) Legal Matters**

In April 2004, the U.S. Government notified KVH that a former KVH employee filed a civil action in Federal District Court in April, 2003, on his own behalf and on behalf of the United States of America, alleging: (i) wrongful termination of employment; and (ii) violations of the False Claims Act in connection with the sale of products to the U.S. Government or its contractors. The complaint in the action had been placed under seal by the Federal District Court and the plaintiff ordered not to serve the complaint on KVH in order to permit the U.S. Government to conduct an investigation into the factual allegations of the complaint for the purpose of deciding whether to intervene as a plaintiff in the litigation. Although the government investigation is still ongoing, the government filed a Notice of Intention to Decline Intervention earlier this year and the court unsealed the complaint on May 11, 2004. As of August 4, 2004, the complaint had not been served on KVH. KVH is fully cooperating with the U.S. Government in its investigation and believes the plaintiff's claims are without merit.

On July 21, 2004, a complaint commencing a potential class action was filed in the U.S. District Court for the District of Rhode Island by Sekuk Global Enterprises in which KVH, and certain of its officers were named as defendants. The suit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities Exchange Act on behalf of purchasers of our securities between January 6, 2004, and July 2, 2004. Similar complaints were filed on July 27, 2004 and July 30, 2004. The civil action brought on July 27, 2004 identifies a class period from October 1, 2003 through July 2, 2004 and the civil action brought on July 30, 2004 identifies a class period from January 6, 2004 through July 2, 2004. We believe that these matters are without merit and will aggressively defend ourselves against all such claims.

Additionally, in the ordinary course of business, KVH is a party to inquiries, legal proceedings and claims including, from time to time, disagreements with customers and vendors.

**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 made by our management, 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 "Forward Looking Statements – Trends, Risks and Uncertainties." These and many other factors could affect our future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by us or on our behalf. The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this report.

**Overview**

We develop, manufacture and market mobile satellite communications products for the automotive, recreational vehicle and marine markets, as well as navigation, guidance and stabilization products for defense markets. Our mobile satellite communications products enable customers to receive live digital television, telephone and Internet services in their automobiles, recreational vehicles and marine vessels while in motion. We sell our mobile satellite communications products through an extensive international network of independent retailers, chain stores and distributors, as well as to manufacturers of marine vessels and recreational vehicles. Our defense products include tactical navigation systems that provide uninterrupted navigation and pointing information in a broad range of military vehicles, including Humvees and light armored vehicles. We also offer precision fiber optic gyro-based systems that help stabilize platforms such as gun turrets and radar units and also provide guidance for munitions. We sell our defense products directly to U.S. and allied governments and government contractors, as well as through an international network of authorized independent sales representatives.

We generate revenue primarily from the sale of our mobile satellite communications and defense products. We also generate a portion of our revenues from the sale of our legacy recreational navigation systems. Our legacy navigation product line primarily includes digital compass-based navigation products for the marine market.

The following table provides, for the periods indicated, our net sales by product line category.

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Mobile satellite communications	\$ 12,344	\$ 9,262	\$ 26,251	\$ 16,953
Defense	1,907	4,295	5,428	9,124
Legacy	281	827	850	1,426
Net sales	\$ 14,532	\$ 14,384	\$ 32,529	\$ 27,503

In addition to revenue from product sales, our mobile satellite communications revenue includes fees earned from product repairs, fees from the resale of satellite phone and Internet usage services, and certain DIRECTV account activation services provided in conjunction with the sale of our products. We provide, for a fee, third-party satellite phone and Internet airtime to our Tracphone and TracNet customers who choose to activate their services with us. Under current DIRECTV programs, we are eligible to receive a one-time new mobile account activation fee from DIRECTV for each customer who activates their DIRECTV service directly through us. Our defense revenue includes engineering services provided under extended-term development contracts. To date, revenues earned from product repairs, resale of satellite phone and Internet usage services, DIRECTV activations and earnings under extended-term development contracts have not been a material portion of our revenues.

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Our defense business is generally characterized by a small number of customers who order a small number of discrete and relatively large dollar value orders. Based upon sales through the first half of 2004, our top four defense customers, including the U.S. military as a single customer, accounted for 17.5% and 50.6% of our net sales attributable to defense products and 2.3% and 8.5%, of our total net sales, in the three months and six months ended June 30, 2004, respectively. In the three and six-month periods ended June 30, 2003, the same four defense customers, including the U.S. military as a single customer, accounted for 61.3% and 40.5%, respectively, of our net sales attributable to defense products and 18.3% and 13.4%, respectively, of our total net sales. The top customer list can change significantly from quarter to quarter. Orders for our defense products generally range in size from several hundred thousand dollars to more than one million dollars. Accordingly, our quarterly net sales of defense products usually consist of only a few orders. Each order can have a significant impact on our net sales, and because our defense products generally have higher margins than our mobile satellite communications products, each order can have an impact on our net income that is disproportionately large relative to the revenue generated by the order. Moreover, customers of our defense products are governments and government contractors who generally 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 revenue from sales to customers located outside of the United States and Canada. Note 8 of the Notes to the Condensed Consolidated Financial Statements on page 9 provides information regarding our sales to specific geographic regions.

In addition to our internally funded research and development efforts, we also conduct research and development activities that are funded by our customers. These activities relate primarily to the customization of our defense products to meet customer requirements. In accordance with accounting principles generally accepted in the United States of America, we account for customer-funded research as revenue, and we account for the associated research costs as cost of goods sold. As a result, some of our expenditures for research and development activities are not included in the research and development expense that we calculate and present in our statement of operations. The following table presents our total research efforts, representing the sum of research, cost of goods sold and the operating expense of research and development as described in our statement of operations. Our management believes this information is useful because it provides a better understanding of our total expenditures on research and development activities.

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
Research and development expense presented on statement of operations	\$ 1,810	\$ 2,311	\$ 3,619	\$ 4,426
Cost of customer-funded research and development included in cost of goods sold	153	253	403	558
<b>Total expenditures on research and development activities</b>	<b>\$ 1,963</b>	<b>\$ 2,564</b>	<b>\$ 4,022</b>	<b>\$ 4,984</b>

### **Critical Accounting Policies**

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 of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures 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, 2003. The accounting policies that we believe are the most beneficial in understanding and evaluating our reported financial results include the following:

#### **Revenue Recognition**

##### *Revenue from Product Sales*

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, goods are shipped, title and risk of loss have passed and collectibility is reasonably assured. We establish reserves for potential sales returns and allowances, and evaluate, on a monthly basis, the adequacy of those reserves based upon historical experience and our expectations for future returns.

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### *Contracted Service Revenue*

Engineering service revenue under extended-term development contracts is recognized during the period in which we perform the development efforts in accordance with the performance criteria as established under the agreement. Performance is determined principally by comparing the accumulated costs incurred to date with management's estimate of the total cost to complete the contracted work. Revisions to costs and income estimates are reflected in the period in which the facts that require revision become known. Any advance payments arising from such extended-term development contracts are deferred and recognized as revenue when earned. If, in any period, estimated total costs under a contract indicate a loss, then such loss is provided for in that period. To date, contracted service revenue has not been a significant portion of our total revenue.

### *Product Service Revenue*

Revenue from services other than under extended-term development contracts is recognized when completed services are provided to the customer and collectibility is reasonably assured. To date, product service revenue has not been a significant portion of our total revenue.

### *Satellite Service Activation and Usage Revenue*

Service activation revenue is recognized at time of activation. Satellite connectivity and usage revenues are recognized when services are provided to subscribers. To date, satellite service activation and usage revenue has not been a significant portion of our total revenue.

### **Accounts Receivable**

Our estimate for allowance for doubtful accounts related to trade receivables is primarily based on specific, historical criteria. We evaluate specific accounts where we have information that the customer may have an inability to meet its financial obligations. We make judgments, based on facts and circumstances, regarding the need to record a specific reserve for that customer against amounts owed to reduce the receivable to the amount that we expect to collect. We also provide for a general reserve based on an aging analysis of our accounts receivable. We evaluate these reserves on a monthly basis and adjust them as we receive additional information that impacts the amount reserved. If circumstances change, we could change our estimates of the recoverability of amounts owed to us by a material amount.

### **Inventories**

Inventory is valued at the lower of cost or market. We regularly review current inventory quantities on hand, actual and projected sales volumes, as well as current and anticipated selling prices of our products. Where there is evidence that the utility of goods, in their distribution in the ordinary course of business, will be less than the recorded cost, whether due to competitive pricing pressures, implemented or anticipated strategic price reduction initiatives, physical deterioration, obsolescence, or other causes, the difference is recognized as a loss in the current period. This is generally accomplished by stating such goods at a lower level commonly designated as market. Carrying values of any products or inventory components identified as having costs in excess of market are reduced by such amounts to ensure net capitalized costs do not exceed the net realizable value.

Accrued net losses on firm purchase commitments for goods for inventory, derived from, and measured in the same way as inventory losses are also recognized in the current period.

Generally, our inventory does not become obsolete because the materials we use are typically interchangeable among various product offerings. If we overestimate projected sales or anticipated selling prices, our inventory might be overvalued, and we would have to reduce our inventory valuation accordingly.

### **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. Based on the history of annual operating losses in our ongoing business, we determined that it was more likely than not that a portion of the deferred tax assets was not recoverable and therefore a valuation allowance was established. We determined that the remaining deferred tax assets were recoverable based on certain tax planning strategies. The amount of the deferred tax assets considered realizable could be reduced in the future if there are changes in the feasibility of those tax-planning strategies. Conversely, some, or all of the previously reserved deferred tax assets could be realized in the future if we generate future earnings during the periods in which those temporary differences become deductible.

[Table of Contents](#)**Results of Operations**

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net sales	100.0%	100.0%	100.0%	100.0%
TracVison A5 revaluation charge	16.6	—	7.4	—
Other cost of goods sold	68.5	54.3	64.5	54.4
Total cost of goods sold	85.1	54.3	71.9	54.4
Gross profit	14.9	45.7	28.1	45.6
Operating expenses:				
Research and development	12.5	16.1	11.1	16.1
Sales and marketing	26.3	18.1	23.6	19.0
General and administrative	10.4	7.6	8.1	7.6
Total operating expenses	49.2	41.8	42.8	42.7
Operating income (loss)	(34.3)	3.9	(14.7)	2.9
Other income (expense), net	0.6	(0.6)	0.3	(0.4)
Income (loss) before income tax expense	(33.7)	3.3	(14.4)	2.5
Income tax expense	(0.3)	(0.3)	(0.4)	(0.2)
Net income (loss)	(34.0%)	3.0%	(14.8%)	2.3%

**Three Months Ended June 30, 2004 and 2003****Operating Summary**

Net loss for the three months ended June 30, 2004, was \$4.9 million, or (\$0.34) per basic and diluted common share, representing a significant reduction from the net income of \$438,000, or \$0.04 per basic and diluted common share, in the three months ended June 30, 2003. The 2004 results reflected a 1.0% increase in sales over 2003, offset by the following factors;

- a \$2.4 million, or 16.6 percentage point of revenue, TracVision A5 revaluation adjustment;
- a 14.2 percentage point of revenue decline in gross margin, excluding the TracVision A5 revaluation adjustment; and
- a 7.4 percentage point of revenue increase in operating expenses.

The decline in gross margin from 45.7% in the second quarter of 2003 to 14.9% in the second quarter of 2004 was primarily due to the TracVision A5 revaluation adjustment compounded by a lower percentage of sales of our higher margin military products. (See further discussion of the TracVision A5 revaluation charge in Note 5 to the Notes of Condensed Consolidated Financial Statements).

The increase in aggregate operating expenses was primarily the result of increased sales and marketing expenditures associated with the growth in our satellite communications product sales together with the product launch and marketing expenses associated with our TracVision A5 satellite TV antenna. Additional professional fees, increased salary and salary-related expenses also contributed to the increase in operating expenses.

As a result of our public offering of 2,750,000 shares of common stock in February 2004, we increased the weighted average shares outstanding used in calculating net income per share for the three months and six months ended June 30, 2004 by 2,750,000 shares and 2,100,275 shares, respectively.

### **Net Sales**

Net sales increased by \$148,000, or 1.0%, to \$14.5 million in the three months ended June 30, 2004, from \$14.4 million in the same period in 2003. Sales of our mobile satellite communications products showed significant growth, increasing 33.3% to \$12.3 million in the three months ended June 30, 2004 from \$9.3 million in the same period in 2003. This increase was primarily attributable to unit volume increases in our marine and land mobile satellite communications products and services, including our recently introduced TracVision A5 automotive antenna system and TracVision G8 marine antenna systems. Growth in both our marine and land mobile satellite communications products primarily reflects the expanding mobile satellite and communication markets in general, our introduction of new products, and our continued focus on developing and expanding our sales to major distributors, large account retailers and original equipment manufacturers.

Defense sales decreased by \$2.4 million, or 55.6%, to \$1.9 million in the three months ended June 30, 2004, from \$4.3 million in the same period in 2003. The decline in defense sales was mainly attributable to the decrease in sales of our tactical navigation systems. During the second quarter of 2003, our tactical navigation product sales reflected the impact of the U.S. military's continuing deployment for the conflict in Iraq. Fiber optic component sales decreased modestly from the second quarter of 2003 to the second quarter of 2004, in part as a result of timing of orders.

Legacy marine and OEM sensor shipments declined by 66.1% from the second quarter of 2003 to the second quarter of 2004. The decline primarily reflects the impact of delays experienced with one of our component suppliers.

### **Cost of Goods Sold**

Our cost of goods sold consists of direct labor, materials, manufacturing overhead expenses and engineering costs related to customer-funded research and development efforts. Cost of goods sold increased by \$4.6 million, or 58.3%, to \$12.4 million in the three months ended June 30, 2004 from \$7.8 million in the same period in 2003. The increase was primarily the result of the following:

- \$2.4 million TracVision A5 lower of cost or market inventory and non-cancelable future purchase commitment revaluation adjustment;
- continued shift in product mix from higher-margin defense-related products to the comparably lower margin mobile satellite communication products;
- higher per unit costs of the TracVision A5 automotive antenna systems relative to our other product lines;
- TracVision A5 and other new product warranty costs; and
- higher manufacturing costs, primarily resulting from additions to support systems and infrastructure, including leased manufacturing space.

Customer-funded research and development costs included in cost of goods sold were approximately \$153,000 and \$253,000, respectively, in the three months ended June 30, 2004 and 2003.

### **Operating Expenses**

Research and development expense consists of direct labor, materials, associated overhead expenses, and other direct costs in support of our internally funded product development activities. All internal research and development costs are expensed in the period they are incurred. Total research and development expense decreased by \$501,000, or 21.7%, to \$1.8 million in the second quarter of 2004 from \$2.3 million in the same period in 2003. As a percentage of net sales, research and development expense decreased to 12.5% in the second quarter of 2004 from 16.1% in the same period in 2003. The decrease reflects a normalization of engineering investment now that we have introduced several major new products, including the TracVision A5, the TracVision G8, and the TG-6000.

Sales and marketing expense consists primarily of salaries and related expenses for sales and marketing personnel, sales commissions for in-house and third party sales representatives, sales related travel, literature, advertising and trade shows. Sales and marketing expense increased by \$1.2 million, or 47.2%, to \$3.8 million in the second quarter of 2004 from \$2.6 million in the same period in 2003. As a percentage of net sales, sales and marketing expense increased to 26.3% in 2004 from 18.1% in the same period in 2003. The dollar increase was primarily a result of additional marketing and distribution costs to support the significant growth in our satellite communications sales. Higher communication-product sales commissions that scale proportionately with sales volume, expanded large account and trade show promotions within the marine and land-mobile markets, and the continued promotional and marketing activities that support additional market awareness of the TracVision A5 and other land mobile satellite communication products also contributed to this increase.

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General and administrative expense consists of costs attributable to our general management, finance, accounting, information systems, human resources, and outside professional services. General and administrative expense increased by \$412,000, or 37.4%, to \$1.5 million in 2004 from \$1.1 million in the same period in 2003. As a percentage of net sales, general and administrative expense increased to 10.4% in 2004 from 7.7% in the same period in 2003. Legal and accounting compliance expenses primarily accounted for this increase. In addition, an increase in salary and salary-related costs contributed to the increase in general and administrative fees.

### ***Income Taxes***

In the second quarters of 2004 and 2003, we recorded foreign income tax provisions of approximately \$51,000 and \$41,000, respectively. The increase was primarily related to the increase in profitability of our foreign subsidiary. We recognized no U.S. net income tax benefit because the recognizable deferred tax benefit was entirely offset by an equal amount of deferred tax valuation allowance.

### **Six Months Ended June 30, 2004 and 2003**

#### ***Operating Summary***

Net loss for the six months ended June 30, 2004, was \$4.8 million, or (\$0.35) per basic and diluted common share, and was significantly below the net income of \$621,000, or \$0.06 per basic and \$0.05 per diluted common share, in the six months ended June 30, 2003. The year to date results reflected an 18.3% increase in sales over 2003, offset primarily by:

- a \$2.4 million, or 7.4 percentage point of revenue, TracVision A5 lower of cost or market inventory and non-cancelable future purchase commitment revaluation adjustment; and
- a 17.5 percentage point of revenue decline in gross margin, excluding the TracVision A5 revaluation adjustment, primarily associated with a lower concentration of sales in the higher-margin defense products

Year-to-date total operating expenses increased by \$2.2 million or 18.5%, from \$11.7 million in 2003 to \$13.9 million in 2004 due mostly to increased new product sales and marketing expenses and, to a lesser extent, general and administrative professional fees. However, as a percentage of sales, the total operating expenses remained consistent from 2003 to 2004 increasing from 42.7% of revenue to 42.8%, respectively.

#### ***Net Sales***

Six-month period net sales increased by \$5.0 million, or 18.3%, to \$32.5 million in 2004 from \$27.5 million in 2003. Sales of our mobile satellite communications products, including our TracVision A5, continued to show significant growth, increasing 54.8% to \$26.3 million in the six months ended June 30, 2004, from \$17.0 million in the same period in 2003. This increase was primarily attributable to unit volume increases in our land mobile and marine satellite communications products and services, including our recently introduced TracVision A5 automotive antenna system and TracVision G8 marine antenna system. Sales results also reflect our realized expansion within the mobile satellite and communication markets in general, our introduction of new products, and our sales to major distributors, large account retailers and original equipment manufacturers.

Defense sales decreased by \$3.7 million, or 40.5%, to \$5.4 million in the six months ended June 30, 2004, from \$9.1 million in the same period in 2003. A decline in sales of our tactical navigation systems represented the majority of the decline in defense sales.

Year-to-date legacy marine and OEM sensor shipments declined by 40.4% from \$1.4 million in 2003 to \$850,000 in 2004. This decline is a continuation of a long-term trend plus the impact of a temporary component supply issue.

#### ***Cost of Goods Sold***

Cost of goods sold for the six months ended June 30, 2004, increased by \$8.4 million, or 56.2%, to \$23.4 million from \$15.0 million in the same period in 2003. Increases in the costs of goods sold for the six months ended June 30, 2004, from the same period in 2003 were consistent with those described in the three-month period ended June 30, 2004 and 2003, and include:

- a \$2.4 million TracVision A5 lower of cost or market inventory and non-cancelable future purchase commitment revaluation adjustment;

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- continued shift in product mix from higher-margin defense-related products to lower margin mobile satellite communication products;
- higher per unit cost of TracVision A5 automotive antenna systems relative to our other product lines;
- TracVision A5 and other new product warranty costs; and
- higher manufacturing costs primarily resulting from additions to support systems and infrastructure, including leased manufacturing space.

Customer-funded research and development costs included in cost of goods sold were approximately \$403,000 and \$558,000 in the six months ended June 30, 2004 and 2003, respectively.

### **Operating Expenses**

Total research and development expense decreased by \$806,000, or 18.2%, to \$3.6 million in the first half of 2004 from \$4.4 million in the same period in 2003. As a percentage of net sales, year-to-date research and development expense decreased to 11.1% in 2004 from 16.1% in the same period in 2003. The decrease reflects a normalization of engineering investment now that several major new products have been introduced, including the TracVision A5, the TracVision G8, and the TG-6000.

Sales and marketing expense consists primarily of salaries and related expenses for sales and marketing personnel, sales commissions for in-house and third-party sales representatives, sales related travel, literature, advertising and trade shows. Sales and marketing expense increased by \$2.4 million, or 46.4%, to \$7.7 million in 2004 from \$5.2 million in the same period in 2003. As a percentage of net sales, sales and marketing expense increased to 23.6% in 2004 from 19.0% in the same period in 2003. Similar to the result for the quarters ended June 30, 2004 and 2003, the increase was primarily a result of additional satellite communications sales, marketing, distribution and technical support costs, increased communication-product sales commissions that scale proportionately with sales volume, expanded large account and trade show promotions, and the continued promotional and marketing activities supporting improved market awareness of the TracVision A5 and other land mobile satellite communication products.

General and administrative expense increased by \$548,000, or 26.3%, to \$2.6 million in 2004 from \$2.1 million in the same period in 2003. As a percentage of net sales, general and administrative expense increased to 8.1% in 2004 from 7.6% in the same period in 2003. Legal and accounting compliance expenses accounted for the majority of our general and administrative cost increases. Additional salary and salary-related costs also contributed to this increase.

### **Income Taxes**

In the six months ended June 30, 2004 and 2003, we recorded foreign income tax provisions of approximately \$137,000 and \$51,000, respectively. The increase was primarily related to the increase in profitability of our foreign subsidiary.

### **Liquidity and Capital Resources**

We have historically funded our operations from product sales, net proceeds from public and private equity offerings, bank financings, proceeds received from exercises of warrants and stock options, and to a lesser extent, equipment leasing and financing arrangements. On February 13, 2004, we completed an underwritten public offering of 2,750,000 shares of our common stock at \$18.75 per share. We received net proceeds of approximately \$48.0 million after deducting all associated offering expenses incurred in both 2003 and 2004. As of June 30, 2004, we had \$47.1 million in cash, cash equivalents and marketable securities and \$60.0 million in working capital.

For the six months ended June 30, 2004, we used \$3.3 million in operating cash primarily to fund both six-month realized sales growth and anticipated future sales growth. Cash flow from operations for the six months ended June 30, 2004 included a \$2.5 million adjustment to our \$4.8 million net loss for the effect of the non-cash TracVision A5 lower of cost or market revaluation charge. Year-to-date 2004 operating cash uses included \$5.6 million of inventory growth resulting from lower than expected second quarter sales and purchases to support projected increases in future period sales. \$1.9 million from accounts receivables cash collection efforts and \$1.3 million in increased accrued expenses and accounts payable balances partially offset our uses of cash. Growth in accrued expenses and accounts payable was primarily attributable to the timing of payments, increased warranty costs, and increases in accrued TracVision A5 non-cancelable future purchase commitments as further described above.

Net cash used in investing activities was \$36.1 million for the six months ended June 30, 2004, and primarily represents the investment of cash in excess of operational needs into marketable securities. We also used \$1.0 million in manufacturing and other capital equipment purchases primarily to support our sales growth and development activities.

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Net cash provided by financing activities was \$48.6 million for the six months ended June 30, 2004. In addition to the \$48.4 million in proceeds, net of the 2004 offering-related expenses, we also received \$273,000 from common stock issuances under our employee stock option and stock purchase programs. These proceeds were partially offset by \$52,000 in principal payments on outstanding long-term debt obligations.

Currently, we have a revolving loan agreement with a bank that provides for a maximum available credit of \$15.0 million and expires on July 17, 2006. We pay interest on any outstanding amounts at a rate equal to, at our option, LIBOR plus 2.0%, or the greater of the Federal Funds Effective Rate plus 0.5% or the bank's prime interest rate. We pay monthly fees at an annual rate of 0.25% on up to \$10.0 million of the unused portion of the loan facility. The loan facility advances funds using an asset availability formula based upon our eligible accounts receivable and inventory balances, less a fixed reserve amount. We may terminate the loan agreement prior to its full term without penalty, provided we give 30 days written notice to the bank. As of June 30, 2004, no borrowings were outstanding under the facility.

On January 11, 1999, we entered into a mortgage loan in the amount of \$3.0 million. The note term is 10 years, with a principal amortization of 20 years at a fixed rate of interest of 7.0%. Land, building and improvements secure the mortgage loan. The monthly mortgage payment is \$23,259, including interest and principal. Due to the difference in the term of the note and amortization of the principal, a balloon payment of \$2.0 million is due on February 1, 2009. Under the mortgage loan we may prepay our outstanding loan balance subject to certain early termination charges as defined in the mortgage loan agreement.

We believe that the \$48.0 million net proceeds from our February 2004 equity offering, together with our existing working capital, will be adequate to meet planned operating and capital requirements through the foreseeable future. However, as the need or opportunity arises, we may seek to raise additional capital through public or private sales of securities or through additional debt financing. There are no assurances that we will be able to obtain any additional funding or that such funding will be available on acceptable terms.

### **Recent Accounting Pronouncements**

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104 or SAB 104, "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The issuance of SAB 104 reflects the concepts contained in EITF 00-21; the other revenue recognition concepts contained in SAB 101 remain largely unchanged. The application of SAB 104 did not have a material impact on our financial position or results of operations.

### **FORWARD LOOKING STATEMENTS – TRENDS, RISKS AND UNCERTAINTIES**

**This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements that are subject to a number of risks and uncertainties, as described below, among others. These are important factors that could cause actual results to differ materially from those anticipated.**

#### **We may not be profitable in the future.**

We have a history of unprofitable operations. During the first six months of 2004 we incurred a net loss of \$4.8 million. Moreover, we incurred net annual losses of \$1.5 million in both 2003 and 2002 and \$6.3 million in 2001. As of June 30, 2004, we had an accumulated deficit of \$16.1 million.

#### **The market for our mobile satellite TV products for minivans, SUVs and other passenger vehicles is new and emerging, and our business may not grow as we expect.**

Our TracVision A5 is the first commercially available, low-profile mobile satellite TV antenna practical for use on minivans, SUVs and other passenger vehicles. We began shipping the TracVision A5 in September 2003. Accordingly, the market for this product is new and emerging. Consumers may not respond favorably to live satellite TV in passenger vehicles, and the market may not accept the TracVision A5. The early stage of development of this market makes it difficult for us to predict customer demand accurately. For example, sales of the TracVision A5 during the last three

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fiscal quarters were below our expectations, we believe to be due in part to pricing, required product upgrades, and production delays resulting from component supply issues. Although we believe we have addressed these issues, similar issues or latent defects in the TracVision A5 could adversely affect sales.

We believe the success of the TracVision A5 will depend upon consumers' assessment of whether or not it meets their expectations for performance, quality, price and design. For example, the TracVision A5 is designed only for use on open roads in the continental United States where there is a clear view of the transmitting satellite in the southern sky. Among the factors that could affect the success of the TracVision A5 are:

- the extent to which customers perceive mobile satellite TV services as a luxury or a preferred convenience;
- the extent to which customers prefer live TV over recorded media;
- the performance, price and availability of competing or alternative products relative to the TracVision A5;
- customers' willingness to pay monthly fees for satellite television service;
- customer's acceptance of programming service packages;
- the adoption of laws or regulations that restrict or ban live television or other video technology in vehicles;
- difficulties or inconveniences associated with scheduling installation at the point of sale;
- poor performance arising from improper installation or installation of damaged equipment; and
- our limited experience with marketing a product to the automotive market, which is substantially larger and more fragmented than our other markets.

In addition, in order for us to meet our sales objectives for the TracVision A5 for the remainder of 2004, it is important that we achieve certain key sales and marketing milestones. For example, we believe we need to continue to develop and expand our sales and marketing relationship with DIRECTV, establish and develop accounts with key van and SUV conversion manufacturers, develop broad consumer awareness of the product, and expand our distribution network. If we are unable to accomplish these milestones in a timely manner, we may not achieve our sales objectives for the TracVision A5.

### **We expect that others will introduce competing mobile satellite TV antennas for automobiles.**

Our TracVision A5 is the first commercially available, low-profile mobile satellite TV antenna for use on minivans, SUVs and other passenger vehicles. Any advantage we may have may erode as other competing companies and products enter this market. In January 2004, Delphi Corp., a prominent supplier of automotive parts, demonstrated a prototype mobile satellite TV antenna that can be integrated into the roof of a luxury SUV. The product, which Delphi announced would be commercialized in coming years, includes antenna technology developed by Motia, Inc., a semiconductor company focused on enabling antennas for wireless systems providers. Motia expects to offer a separate product for the automotive after-market. RaySat has announced its intention to introduce a low-profile phased-array satellite antenna using technology developed by Skygate potentially later in 2004. Winegard has also announced its intention to introduce a low-profile in-motion satellite TV antenna compatible with DIRECTV. ERA Technology Ltd. has announced that it has developed a low-profile scanning antenna allowing direct broadcast satellite TV services. These satellite antenna products may have a slightly lower profile than the TracVision A5's five-inch profile, and customers may prefer to wait for antennas integrated into the vehicle roof or antennas with a lower profile. In addition, Delphi and SIRIUS Satellite Radio announced in January 2004 that they intend to introduce in 2005 a service offering several video channels through SIRIUS' existing satellite radio system. Customers may delay purchasing the TracVision A5 in anticipation of the release of any of these products. Competition from any of these products could impair our ability to sell the TracVision A5 and may force us to further reduce the price of the TracVision A5. Moreover, Delphi's long-term relationships with automobile manufacturers may give it a significant advantage in selling mobile satellite TV antennas to those manufacturers.

### **We must continue reducing costs for the TracVision A5 to reach our targeted profit margins.**

Initial product profit margins for the TracVision A5 have been low. To reach our targeted profit margins, we must continuously reduce our manufacturing costs for the TracVision A5. We may be unable to achieve the cost reductions necessary to increase our overall profit margins. Although we have ongoing cost reduction programs that include volume purchasing discounts and redesigning certain components using lower cost materials and processes, technological or other challenges may prevent us from achieving all of the necessary cost reductions. Moreover, if the price of the TracVision A5 is not attractive to a broad range of customers, we may be forced to further lower the price, which would further impair our product profit margins unless we are able to achieve corresponding cost reductions.

**Customers for TACNAV and our other defense products include the U.S. military and foreign governments, whose purchasing schedules and priorities can be unpredictable.**

We sell TACNAV and our other defense products to the U.S. military and foreign military and government customers. These customers have unusual purchasing requirements, which can make sales to those customers unpredictable. Factors that affect their purchasing decisions include:

- new military and operational doctrines that affect military equipment needs;
- changes in tactical navigation requirements;
- changes in modernization plans for military equipment;
- shifting priorities for current battlefield operations;
- delays in military procurement schedules;
- allocation of funding for military programs;
- delays in the testing and acceptance of our products; and
- sales cycles that are long and difficult to predict.

These factors can cause substantial fluctuations in sales of TACNAV and our other defense products from period to period. Moreover, TACNAV and most of our other defense products must meet military quality standards, and our products may not continue to meet existing or more rigorous standards adopted in the future. Any failure to meet military contract specifications may produce delays as we attempt to improve our design, development, manufacturing or quality control processes. Furthermore, government customers and their contractors can generally cancel orders for our products for convenience. Even under firm orders with government customers, funding must usually be appropriated in the budget process in order for the government to complete the contract. The cancellation of or failure to fund orders for our products could substantially reduce our net sales.

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

We derive a substantial portion of our defense revenues from a small number of customers. Based upon sales through the first half of 2004, our top four defense customers, including the U.S. military as a single customer, accounted for 17.5% and 50.6%, of our net sales attributable to defense products and 2.3% and 8.5%, of our total net sales in the three months and six months ended June 30, 2004, respectively. In the three and six-month periods ended June 30, 2003, the same four defense customers, including the U.S. military as a single customer, accounted for 61.3% and 40.5%, respectively, of our net sales attributable to defense products and 18.3% and 13.4%, respectively, of our total net sales. The loss of any of these customers would substantially reduce our net sales and results of operations and could seriously harm our business.

**Sales of TACNAV and our other defense products generally consist of a few large orders, and the delay or cancellation of a single order would substantially reduce our net sales.**

Unlike our mobile satellite communications products, TACNAV and our other defense products are purchased through orders that can generally range in size from several hundred thousand dollars to more than one million dollars. As a result, the delay or cancellation of a single order could materially reduce our net sales and results of operations. Because our defense products typically have higher margins than our mobile satellite communications products, the loss of an order for defense products could have a disproportionately adverse effect on our net sales and results of operations.

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

Our mobile satellite communications products have historically had lower product margins than our defense products. In the first half of 2004, sales of our mobile satellite communications products grew while sales of defense products declined compared to the first half of 2003. If this change in the mix profile of satellite communications and defense products were to continue, it could result in lower gross margins in the future.

**We depend on single manufacturing lines for our products, and any significant disruption in production could impair our ability to deliver our products.**

We currently manufacture and assemble our products using individual production lines for each product category. We have experienced manufacturing difficulties in the past, and any significant disruption to one of these production lines

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will require time either to reconfigure and equip an alternative production line or to restore the original line to full capacity. Some of our production processes are complex, and we may be unable to respond rapidly to the loss of the use of any production line. For example, our production process uses some specialized equipment and custom molds that may take time to replace if they malfunction. 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. In general, we do not have written long-term supply agreements with our suppliers but instead purchase components through purchase orders, which exposes us to potential price increases and termination of supply without notice or recourse. We do not generally carry significant inventories of product components, which could magnify the impact of the loss of a supplier. If we are required to use a new source of materials or components, it could also result in unexpected manufacturing difficulties and could affect product performance and reliability.

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

We market and sell our mobile satellite 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 increase the number of our distribution relationships, it could significantly reduce or limit our net sales. In addition, our distribution partners may sell products of other companies, including competing products, and are not required to purchase minimum quantities of our products. Moreover, our distributors may operate on low product margins and could give higher priority to products with higher margins than ours.

### **We depend on others to provide programming for our TracVision products, Internet access for our TracNet products, and telephone, fax and data services for our Tracphone products.**

Our TracVision products include only the equipment necessary to receive satellite television services; we do not broadcast satellite television programming. Instead, customers must obtain programming from another source. We currently offer marine and land mobile TracVision products compatible with the DIRECTV and DISH Network services in the continental United States, the ExpressVu service in Canada and various other regional services in other parts of the world. Our initial TracVision A5 product is compatible only with the DIRECTV service in the continental United States. If customers become dissatisfied with the programming, pricing, service, availability or other aspects of these satellite television 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 TracVision products. The companies that operate these services have no obligation to inform us of technological or other changes that could impair the performance of our TracVision products.

Similarly, our Tracphone and TracNet products currently depend on satellite services provided by third parties. We rely on Inmarsat for satellite communications services for our Tracphone products. We rely on Bell ExpressVu for TracNet service in North America and Telemar for TracNet service in Europe. We also rely on Globalstar, a subsidiary of Thermo Capital Partners LLC, for the satellite return link for TracNet.

If any of our vendors were unable to fulfill their obligations, we would need to seek alternate suppliers. In that case, we may be required to retrofit or upgrade hardware and software as necessary to ensure the continued operation of the affected products. We may incur significant delays and expenses in our efforts to make the necessary changes, and those efforts may be unsuccessful. Moreover, we may not be successful in identifying and entering into appropriate agreements with replacement suppliers on commercially reasonable terms, which would impair our ability to offer the affected products. Similarly, we may lose the goodwill of existing customers if any currently installed products cease to work for any extended period. Any such outcome could lead to a substantial reduction in sales.

**Our mobile satellite communications products depend on the availability of third-party satellites, which face significant operational risks and could fail earlier than their expected useful lives.**

Our mobile satellite communications products depend on the availability of programming and services broadcast through satellites owned by third parties. 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. These satellites face significant operational risks while in orbit. These risks include malfunctions that can occur as a result of satellite manufacturing errors, problems with power or control systems and general failures resulting from the harsh space environment. Moreover, each satellite has a limited useful life, and the satellite providers make no guarantees that the planned backup systems and capacity will be sufficient to support these satellite services in the event of a loss or reduction of service. We cannot assure you that satellite services compatible with our products will continue to be available or that such services will continue to be offered at reasonable rates. The accuracy or availability of satellite signals may also be limited by ionospheric or other atmospheric conditions, intentional or inadvertent signal interference, or intentional limitations on signal availability imposed by the satellite provider. A reduction in the number of operating satellites on any system, the inoperability of any key satellite or the failure of any key satellite or satellites to provide an accurate or available signal could impair the utility of our products or the growth of current and additional market opportunities.

**Our net sales and operating results could decline due to general economic trends or declines in consumer spending.**

Our operating performance depends significantly on general economic conditions. Net sales of our satellite communications products are largely generated by discretionary consumer spending, and demand for these products can demonstrate slower growth than we anticipated as a result of recent global economic conditions. Consumer spending tends to decline during recessionary periods and may decline at other times. Consumers may choose not to purchase our mobile satellite communications products due to a perception that they are luxury items. If global and regional economic conditions fail to improve or deteriorate, demand for our products could be adversely affected.

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

The markets for mobile satellite communications products and defense navigation, 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 certain 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. For example, other companies have recently announced their intentions to offer low-profile in-motion satellite antennas in the near future. These products will compete with our TracVision A5 and may offer more attractive performance, pricing and other features.

**If we cannot effectively manage our growth, our business may suffer.**

Recently, we have expanded our operations to pursue existing and potential market opportunities. This growth has placed, and is expected to continue to place, a strain on our personnel, management, financial, and other resources. If we fail to manage our growth properly, we may incur unnecessary expenses and the efficiency of our operations may decline. In order to pursue successfully the opportunities presented by the emerging TracVision A5 market, we must continue to expand our operations. To manage our growth effectively, we must, among other things:

- upgrade and expand our manufacturing facilities and capacity in a timely manner;
- successfully attract, train, motivate and manage a larger number of employees for manufacturing, sales and customer support activities;
- control higher inventory and working capital requirements; and
- improve the efficiencies within our operating, administrative, financial and accounting systems, procedures and controls.

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

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

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

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

**Competition may limit our ability to sell our recreational vehicle and marine satellite communications products and defense products.**

The mobile satellite 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. To remain competitive, we must enhance our existing products and develop new products, and we may have to reduce the prices of our products. Moreover, new competitors may emerge, and entire product lines may be threatened by new technologies or market trends that reduce the value of those product lines.

In the defense navigation, guidance and stabilization markets, we compete primarily with Honeywell International Inc., Kearfott Guidance & Navigation Corporation, Leica Microsystems AG, Northrop Grumman Corporation and Smiths Group PLC. In the market for mobile satellite communications products, we compete with a variety of companies. In the land mobile market for satellite TV communications equipment, we compete directly with King Controls, MotoSAT, TracStar Systems, Inc., and Winegard Company. In the land mobile market for Internet communications equipment, we compete directly with Hughes Network System's DIRECWAY service and indirectly with cellular telephone service providers, whose services are substantially cheaper than TracNet. In the marine market for satellite TV communications equipment, we compete with Navigator Technology, Orbit Satellite Television & Radio Network and Sea Tel. In the marine market for telephone, fax, data and Internet communications equipment, we compete with Furuno Electric Co., Ltd., Globalstar LP, Iridium Satellite LLC, Japan Radio Company and Nera ASA. Among the factors that may affect our ability to compete in our markets are the following:

- any of our primary competitors are well established companies that have substantially greater financial, managerial, technical, marketing, personnel and other resources than we do;
- product improvements or price reductions by competitors may weaken customer acceptance of 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.

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

Sales to customers outside the United States and Canada accounted for approximately 26.1% and 23.5% of our net sales in the three and six months ended June 30, 2004 and 22.1% and 30.1% of our net sales in the three and six months ended June 30, 2003, respectively. We have only one foreign sales office, which is located in Denmark, and we otherwise support our international sales from our operations in the United States. Our limited operations in foreign countries may impair our ability to compete successfully in international markets and to meet the service and support needs of our customers in countries where we have no infrastructure. We are subject to a number of risks associated with our international business activities, which may increase our costs and require significant management attention. These risks include:

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

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- restrictions on the sale of certain defense products to foreign military and government customers;
- additional costs and delays associated with obtaining approvals and licenses under applicable export regulations;
- increased costs of providing customer support in multiple languages;
- satisfaction of international regulatory requirements and procurement of any necessary licenses or permits;
- more limited protection of our intellectual property;
- 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.

### **If we are unable to maintain adequate product liability insurance, we may have to pay significant monetary damages in a successful product liability claim against us.**

The development and sale of mobile satellite communication products and defense products entail an inherent risk of product liability. For example, consumers may ignore laws or warnings not to watch satellite television while driving and, as a result, may become involved in serious accidents, for which they may seek to hold us responsible. Product liability insurance is generally expensive for companies such as ours. Accordingly, we maintain only limited product liability insurance coverage for our products. Our current levels of insurance or any insurance we may subsequently obtain may not provide us with adequate coverage against potential claims, such as claims by those involved in accidents caused by drivers watching television. In addition, we may be unable to renew our policies on commercially reasonable terms or obtain additional product liability insurance on acceptable terms, if at all. If we are exposed to product liability claims for which we have insufficient insurance, we may be required to pay significant damages, which could seriously harm our financial condition and results of operations.

### **If we are required to account for stock options as a compensation expense, our reported net income and earnings per share will be reduced.**

We currently expect that changes in accounting standards or regulations will require us to record the fair market value of stock options and other forms of equity compensation as a compensation expense in our financial statements. We currently grant all employee options with an exercise price equal to fair market value and do not record compensation expense in connection with the grants. Accordingly, if such a change occurs, our reported net income and earnings per share will be reduced.

### **Exports of our defense products are subject to the International Traffic in Arms Regulations and require a license from the U.S. Department of State prior to shipment.**

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

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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.

### **Pending securities class action lawsuits could have a material adverse effect on our financial condition and results of operations.**

On July 21, 2004, a complaint commencing a potential class action was filed in the U. S. District Court for the District of Rhode Island by Sekuk Global Enterprises in which we, and certain of our officers, were named as defendants. The suit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities Exchange Act on behalf of purchasers of our securities between January 6, 2004 and July 2, 2004. Similar complaints were filed on July 27, 2004 and July 30, 2004. We intend to vigorously defend ourselves against these claims. There can be no assurance, however, that we will not have to pay significant damages or amounts in settlement. An unfavorable outcome or prolonged litigation could materially harm our business. The litigation could also divert the time and attention of our management.”

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

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

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

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

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

We have 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:

- demand for our mobile satellite communications products and defense products;
- the timing and size of individual orders from military customers;
- our ability to manufacture, test and deliver products in a timely and cost-effective manner;
- our success in winning competitions for orders;
- the timing of new product introductions by us or our competitors;
- the mix of products we sell;
- market and competitive pricing pressures;
- general economic climate; and
- seasonality of pleasure boat and recreational vehicle usage.

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

### **New corporate governance requirements are likely to increase our costs and make it more difficult to attract qualified directors.**

We face new corporate governance requirements under the Sarbanes-Oxley Act of 2002, as well as rules adopted by the SEC and the Nasdaq Stock Market. We expect that these laws, rules and regulations will increase our legal and financial compliance costs and make some activities more difficult, time consuming and costly. We also expect that these new requirements will make it more difficult and more expensive for us to maintain director and officer liability insurance. We may be required to accept reduced coverage or incur significantly higher costs to obtain coverage. These new requirements are also likely to make it more difficult for us to attract and retain qualified individuals to serve as members of our board of directors or committees of the board, particularly the audit committee.

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

Our stock price has been volatile. From January 1, 2003 to June 30, 2004, the trading price of our common stock ranged from \$8.62 to \$34.73. Many factors may cause the market price of our common stock to fluctuate, including:

- variations in our quarterly results of operations;
- the introduction of new products by us or our competitors;
- changing needs of military customers;
- changes in estimates of our performance or recommendations by securities analysts;
- the hiring or departure of key personnel;
- acquisitions or strategic alliances involving us or our competitors;
- changes in, or adoptions of, accounting principles; and
- market conditions in our industries and the economy as a whole.

In addition, the stock market can experience extreme price and volume fluctuations. 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 class action litigation against that company. Litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources or otherwise harm our business.

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

Our primary market risk exposure is in the area of foreign currency exchange risk. We are exposed to currency exchange rate fluctuations related to our subsidiary operations in Denmark. Certain operations in Denmark are transacted in the Danish Krone or Euro and reported in the U.S. dollar, the functional currency. For foreign currency exposures existing at June 30, 2004, a 10% unfavorable movement in the foreign exchange rates for our subsidiary location would not expose us to material losses in earnings or cash flows. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

From time to time, we purchase foreign currency forward exchange contracts having durations of no more than 3 months. These forward exchange contracts offset the impact of exchange rate fluctuations on intercompany payments due from our foreign subsidiary. Forward exchange contracts are accounted for as cash flow hedges and are recorded on the balance sheet at fair value. Changes in the fair value are recognized in earnings. As of June 30, 2004, the difference between the cumulative change in the fair value of the hedge instruments and the cumulative change in the value of the hedged transactions was not material. Accordingly, the fair value of these forward contracts was not material.

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, including commercial paper, investment grade asset-backed corporate securities, money market funds and government, government agency and non-government debt securities. A hypothetical 100-basis-point increase in interest rates would result in an approximate \$61,000 decrease in the fair value of our investments as of June 30, 2004. However, due to the conservative nature of our investments, the relatively short duration of their maturities, our ability to convert some or all of our long-term investments to less interest rate-sensitive holdings and our general intent to hold most securities until maturity, we believe interest rate risk is mitigated. As of June 30, 2004, approximately 67% of the \$35.0 million classified as available-for-sale marketable securities will mature or reset within one year. We do not invest in any financial instruments denominated in foreign currencies. Accordingly, interest rate risk is not considered material.

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 June 30, 2004.

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

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

Our management has evaluated, under the supervision and with the participation of our president and chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our president and chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that we record, process, summarize and report the information we must disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, within the time periods specified in the SEC's rules and forms.

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and the risk of fraud. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

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

During the three months ended June 30, 2004, there were no changes in our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

In April 2004, the U.S. Government notified us that a former employee of ours filed a civil action in Federal District Court in April, 2003, on his own behalf and on behalf of the United States of America, alleging: (i) wrongful termination of employment; and (ii) violations of the False Claims Act in connection with the sale of products to the

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U.S. Government or its contractors. The complaint in the action had been placed under seal by the Federal District Court and the plaintiff ordered not to serve the complaint on us in order to permit the U.S. Government to conduct an investigation into the factual allegations of the complaint for the purpose of deciding whether to intervene as a plaintiff in the litigation. Although the government investigation is still ongoing, the government filed a Notice of Intention to Decline Intervention and subsequently, the court unsealed the complaint on May 11, 2004. As of August 4, 2004, the complaint had not been served. We are fully cooperating with the U.S. Government in its investigation and believe the plaintiff's claims are without merit.

On July 21, 2004, a complaint commencing a potential class action was filed in the U. S. District Court for the District of Rhode Island by Sekuk Global Enterprises in which we, and certain of our officers were named as defendants. The suit asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities Exchange Act on behalf of purchasers of our securities between January 6, 2004 and July 2, 2004. Similar complaints were filed on July 27, 2004 and July 30, 2004. The civil action brought on July 27, 2004 identifies a class period from October 1, 2003 through July 2, 2004 and the civil action brought on July 30, 2004 identifies a class period from January 6, 2004 through July 2, 2004. We believe that these matters are without merit and will aggressively defend ourselves against all such claims.

Additionally, in the ordinary course of business, we are a party to legal inquiries, proceedings and claims including, from time to time, disagreements with customers concerning our products and services.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On May 26, 2004, we held our annual meeting of stockholders. Our stockholders elected Arent H. Kits van Heyningen and Charles R. Trimble to serve as Class II directors for three-year terms. In addition, the terms of office of our other directors, Martin A. Kits van Heyningen, Robert W.B. Kits van Heyningen, Mark S. Ain, Stanley K. Honey, and Bruce J. Ryan, continued after our annual meeting of stockholders.

#### **The votes cast to elect the directors were:**

	<u>Votes In Favor</u>	<u>Abstentions</u>
Arent Kits van Heyningen	12,471,494	215,811
Charles R. Trimble	12,335,524	351,781

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

- 10.1\* Independent Retailer Agreement dated June 21, 2004 with DIRECTV, Inc.
- 31.1 Rule 13a-14(a)/15d-14(a) certification of principal executive officer
- 31.2 Rule 13a-14(a)/15d-14(a) certification of principal financial officer
- 32.1 Section 1350 certification of principal executive officer
- 32.2 Section 1350 certification of principal financial officer

\* Certain portions are filed under application for confidential treatment

(b) Reports Filed on Form 8-K:

On April 22, 2004, we furnished a current report on Form 8-K, pursuant to Item 12, which reported our financial results for the fiscal quarter ended March 31, 2004.

On April 27, 2004, we furnished a current report on Form 8-K/A, pursuant to Item 12, which reported our financial results for the fiscal quarter ended March 31, 2004.

**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: August 6, 2004

KVH Industries, Inc.

By:     /s/ Patrick J. Spratt    

Patrick J. Spratt

(Duly Authorized Officer and

Chief Financial and Accounting Officer)

**Exhibit Index**

<u>Exhibit</u>	<u>Description</u>
10.1*	Independent Retailer Agreement dated June 21, 2004 with DIRECTV, Inc.
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer
32.1	Section 1350 certification of principal executive officer
32.2	Section 1350 certification of principal financial officer

\* Certain portions are filed under application for confidential treatment

**INDEPENDENT RETAILER AGREEMENT**

**THIS INDEPENDENT RETAILER AGREEMENT** shall be deemed to be effective as of June 21, 2004 (the "Effective Date") between **DIRECTV, Inc.**, a California corporation ("DIRECTV") and **KVH Industries, Inc.**, a Delaware corporation ("Retailer"), with reference to the following:

A. DIRECTV operates a direct broadcast satellite service ("DBS Service") through which consumers may receive video, audio and other programming using specialized digital satellite receiving equipment ("DIRECTV System").

B. Retailer manufactures and sells and plans to operate a business selling, installing and maintaining specialized mobile antennas and set-top box receivers that enable passenger vehicles (as defined below) to receive DIRECTV Programming, under the trade name "KVH Industries" through its authorized dealers listed on Exhibit A attached hereto, as the same may be amended from time to time in DIRECTV's sole discretion ("Dealers").

C. Retailer desires to act as one of DIRECTV's commissioned independent retailers for its DBS Service and solicit consumers to order certain DIRECTV programming packages and services which are identified in Exhibit B attached hereto, as the same may be amended from time to time ("DIRECTV Programming Packages").

NOW, THEREFORE, the parties hereby agree as follows:

**1. APPOINTMENT OF INDEPENDENT RETAILER.**

1.1 **APPOINTMENT.** DIRECTV hereby appoints Retailer as its commissioned independent retailer to solicit subscriptions for the DIRECTV Programming Packages ("Subscriptions"), on the terms and conditions herein. Retailer shall only sign-up Subscriptions from owners or lessors of passenger vehicles in the United States (the "Territory") for receipt of DIRECTV Service in such passenger vehicles. Passenger vehicles are defined to include automobiles and light trucks (pick-up trucks, vans, sport utility vehicles) registered in any one of the 50 states of the United States. Retailer may solicit Subscriptions only for the DIRECTV Programming Packages identified in Exhibit B attached hereto, and not any other programming packages or services DIRECTV may offer. DIRECTV may amend the list of DIRECTV Programming Packages from time to time on written notice to Retailer. Retailer hereby accepts such appointment and shall use commercially reasonable efforts to solicit Subscriptions and to promote and enhance DIRECTV's business, reputation and goodwill.

1.2 **NO EXCLUSIVITY REQUIRED OF DIRECTV.** DIRECTV may itself solicit Subscriptions from consumers, either directly, indirectly, or in conjunction with any third party, and may authorize parties other than Retailer to solicit Subscriptions, for any compensation and upon any other terms as DIRECTV may determine in its discretion. Such compensation and terms may differ from those provided Retailer in this Agreement. Retailer acknowledges that DIRECTV and such other parties may compete with Retailer in the solicitation of Subscriptions.

1.3 **LIMITED EXCLUSIVITY REQUIRED OF RETAILER.** In consideration of Retailer's having access to certain of DIRECTV's confidential information regarding DIRECTV's business, and using DIRECTV's logo in the promotion of the Retailer's Products (as defined below), Retailer agrees that it will not directly or indirectly, promote, advertise, market, offer, sell or solicit sales of any audio/video multi-channel entertainment programming packages or equipment which compete with DIRECTV or DIRECTV Systems in the passenger vehicle market during the term in the Territory (the "Exclusive Obligation"). The parties agree and acknowledge that the Exclusive Obligation described herein is a material term of this Agreement and that the violation of this Subsection will cause substantial harm to DIRECTV. Accordingly, in addition to any other rights DIRECTV may have, DIRECTV shall have the right to terminate this Agreement immediately for Retailer's material breach of this Section. Should DIRECTV enter into a definitive binding agreement during the term with a direct competitor of Retailer for the manufacture or marketing of specialized mobile antennas and set-top box receivers that enable customers in passenger vehicles to receive DIRECTV programming, Retailer's Exclusive Obligation to DIRECTV would terminate on the second anniversary of the Effective Date, or anytime thereafter should DIRECTV enter into such an agreement thereafter.

## 2. RETAILER'S GENERAL OBLIGATIONS.

### 2.1 [Reserved]

2.2 **RETAIL DISPLAYS.** Retailer shall cause its Dealers to prominently display, in a high traffic area at each of its Dealer's locations and in a manner reasonably directed by DIRECTV, point of sale materials provided or approved by DIRECTV and demonstration of the DIRECTV System which provides a live feed of DIRECTV programming on a monitor of a size appropriate for passenger vehicles, unless otherwise agreed in writing by DIRECTV. Retailer shall cause such Dealers to keep such DIRECTV System turned on and tuned to such channels as DIRECTV may designate during normal business hours.

2.3 **TRAINING.** DIRECTV shall provide training and training materials regarding its DBS Service and DIRECTV programming to Retailer's training personnel, as DIRECTV reasonably deems necessary. Retailer shall train its own employees and its Dealers to the reasonable satisfaction of DIRECTV. DIRECTV may request that Retailer's employees and Dealers attend supplementary training classes from time to time. Retailer shall be responsible for all expenses and compensation of its employees and Dealers during such training. Should DIRECTV elect to use its Home Services Provider Network to install Retailer's Products during the term, Retailer shall provide all necessary training and services to the Home Services Provider Network to enable capability.

### 2.4 SALES PERSONNEL.

(a) Retailer may allow only its employees (and not any other independent contractors, sub-agents or other parties) to solicit, take or deliver any orders for DIRECTV Programming Packages except with DIRECTV's prior written consent, which may be withheld in DIRECTV's discretion. Retailer may utilize persons other than its employees who have been properly trained in accordance with Section 2.3 of this Agreement (the "Approved Third Parties") to solicit orders for DIRECTV Programming Packages if Retailer informs DIRECTV in writing of the nature of the relationship with such Third Parties (e.g., independent contractor providing installation service) prior to the launch of any specific solicitation activity, and DIRECTV shall have the right, in its reasonable discretion, to disapprove any relationship between Retailer and any third party.

(b) DIRECTV's approval hereunder shall not be construed as an acknowledgement that Retailer is complying with applicable laws. Retailer represents that it, as well as any Approved Third Parties that Retailer contracts with, are operating in compliance with applicable laws. Retailer will be responsible and liable for any and all action or inaction taken by such Approved Third Parties in connection with this Agreement. Notwithstanding the foregoing, in the event that DIRECTV, in its reasonable discretion, determines that the Approved Third Parties are not complying with the terms of this Agreement, DIRECTV may immediately withdraw its approval of such Approved Third Parties and Retailer shall immediately cease use of such Approved Third Parties in connection with this Agreement.

2.5 **ADVERTISING.** Retailer shall promote and advertise DIRECTV and its DBS Service for passenger vehicles, at its sole cost, using such marketing channels and at such frequency as DIRECTV may reasonably designate and Retailer may reasonably agree. All advertising materials using DIRECTV's Marks (as hereinafter defined) shall be subject to DIRECTV's prior approval, which approval may be withheld by DIRECTV in its sole and absolute discretion. No approval shall limit Retailer's obligation to comply with applicable law or be deemed an endorsement of any advertising content except as it relates to DIRECTV's DBS Service. DIRECTV and Retailer shall work together on various marketing activities associated with the DBS Service and Retailer's Products.

2.6 **STANDARD POLICIES.** Retailer shall comply with and shall cause its Dealers to comply with the standard policies and procedures DIRECTV may promulgate for its independent retailers or sales agents in written notices, guidelines, and bulletins, including, but not limited to, DIRECTV's Trademark and Style Guide, as the same may be amended from time to time (collectively, "Policies"). The Policies shall be an integral part of this Agreement but may not impair any of Retailer's rights granted herein.

2.7 **STANDARD OF CONDUCT.** In all of its activities as a commissioned independent retailer for DIRECTV and in its own DIRECTV System business and Retailer's Products business, Retailer shall conduct itself, and shall cause its Dealers to conduct themselves, in a commercially reputable and ethical manner, shall comply with all applicable laws, and shall engage in no deceptive sales practice or other practice which impugns DIRECTV's commercial reputation and goodwill.

2.8 **NO TYING.** In no event may Retailer condition the sale of a DIRECTV Programming Package upon the customer's acquisition of any other product or service (other than approved DIRECTV System and installation related thereto), except as approved by DIRECTV in writing.

2.9 **BOOKS AND RECORDS.** Retailer shall maintain books and records relating to its activities on behalf of DIRECTV for a minimum of three (3) years after their creation and shall keep them at its principal place of business. DIRECTV may at all times during business hours inspect such records and Retailer's locations for compliance thereunder.

2.10 **COLLECTION AND ADMINISTRATION OF ANNUAL PROGRAMMING COMMITMENT AGREEMENTS.** For each and every Qualifying Subscriber and every existing DIRECTV subscriber who agrees to activate and maintain a DIRECTV Programming Package for one year, Retailer shall perform the following:

- (a) Explain the terms and conditions of the Annual Programming Commitment Agreement required by DIRECTV as described in **Schedule 1** attached hereto and in other materials provided by DIRECTV from time to time;
- (b) Cause the customer to complete and execute the Annual Programming Commitment Agreement;
- (c) Verify, validate and certify, by reasonable means, the accuracy of the information provided by the customer in the Annual Programming Commitment Agreement;
- (d) Complete the dealer portion of the Annual Programming Commitment Agreement;
- (e) Provide a completed and executed copy of the Annual Programming Commitment Agreement to the customer;
- (f) Maintain a completed and executed copy of the Annual Programming Commitment Agreement;
- (g) When submitting an Order, as defined herein below, for a DIRECTV Programming Package in accordance with the order procedures, indicate and notify DIRECTV, in accordance with the procedures prescribed by DIRECTV, that a customer has executed and agreed to the Annual Programming Commitment Agreement;
- (h) Upon request by DIRECTV, provide the completed copy of the Annual Programming Commitment Agreement; and
- (i) For purposes of this Agreement, a "Qualifying Subscriber" shall mean an owner or lessor of a passenger vehicle registered within the Territory from whom Retailer procures an Approved Activation (as defined below) for a Subscription for which Prepaid Programming Commission (as defined below) is payable under the terms of this Agreement.

2.11 **CUSTOMER RELATIONS, ETC.** Retailer shall not (a) mislead, deceive or otherwise misrepresent customers in connection with the terms and conditions of the DIRECTV Programming Packages or the Annual Programming Commitment Agreement; (b) force or coerce customers into executing the Annual Programming Commitment Agreement; (c) falsify any information contained in the Annual Programming Commitment Agreement; or (d) falsely claim that a customer has executed the Annual Programming Commitment Agreement. In the event Retailer breaches or otherwise violates this Section, in addition to any other rights it may have, DIRECTV shall have the right to terminate this Agreement immediately upon written notice to Retailer.

### 3. **RETAILER'S PRODUCTS BUSINESS.**

3.1 **RETAILER'S OWN ACCOUNT.** Retailer shall conduct all of its DIRECTV System and Retailer's Products fulfillment, sale, lease, installation scheduling, installation, warranty, technical support, maintenance,

and repair business (“DIRECTV System Business”) for its own account and not as an agent for DIRECTV. At the request of DIRECTV, Retailer shall display notices to its customers, in such form, places and manner as mutually agreed by Retailer and DIRECTV, of such fact and that Retailer and not DIRECTV shall be responsible for all of Retailer’s actions and Retailer’s Dealers’ actions in this regard. DIRECTV disclaims any control over Retailer’s DIRECTV System business and Retailer’s Products business except to the limited extent expressly provided herein and to support and protect its activities as a commissioned independent retailer for DIRECTV’s DBS Service.

3.2 **APPROVED DIRECTV SYSTEM.** All DIRECTV Systems offered by Retailer for use with DIRECTV’s DBS Service must be compatible with such DBS Service and manufactured by a supplier approved by DIRECTV. DIRECTV shall notify Retailer of such approved DIRECTV Systems and suppliers. Retailer may take orders for DIRECTV Programming Packages hereunder only from customers to whom its Dealers sell or lease Retailer’s Products. “Retailer’s Products” shall mean the TracVision A5 and future versions of such satellite television antenna designed for use on passenger vehicles by Retailer, along with the set-top box receiver, remote control and any other accessories associated therewith. Retailer shall be responsible at its sole cost for the provision of Retailer’s Products. Retailer shall use commercially reasonable efforts to develop technological improvements and enhancements to Retailer’s Products during the Term, including incorporation of reasonable technical recommendations from DIRECTV related to Retailer’s Products.

3.3 **BRANDING.** Retailer shall brand Retailer’s Products with its logo and/or trademark. DIRECTV shall have the right, but not the obligation, to jointly brand Retailer’s Products at any time during the Term if mutually agreed upon by the parties. Should DIRECTV decide to jointly brand a competing passenger vehicle antenna and at the same time decide not to jointly brand Retailer’s Products, Retailer is free from its Exclusive Obligation to DIRECTV set forth in Section 1.3.

#### 4. RATES AND TERMS OF SERVICES.

4.1 **RATES.** DIRECTV may determine the content, pricing, terms, and conditions of its Programming Packages in its discretion. Retailer shall not represent that DIRECTV Programming Packages may be obtained on any different terms or rates, shall not impose additional or different terms and shall not offer customers any discount, rebate, or other material benefits in consideration for subscribing to them, except as expressly authorized by DIRECTV in writing.

4.2 **CHANGES.** DIRECTV may change the content, pricing, terms, conditions, and availability of its Programming Packages from time to time in its discretion. DIRECTV shall notify Retailer of such changes as soon as practicable. Retailer shall promptly replace point of sale materials as necessary.

4.3 **MISREPRESENTATIONS.** If Retailer or one of its Dealers misrepresents or fails to fully disclose any prices or other terms of DIRECTV Programming Packages to any customer, it shall reimburse DIRECTV any amount which DIRECTV is compelled, or in its reasonable judgment according to its standard business practices decides, to pay or credit the customer in compensation for such misrepresentation. In addition, DIRECTV shall be entitled to offset any such payment or credit by DIRECTV to customers as a result of Retailer’s or its Dealer’s misrepresentations or omissions against any amounts owed to Retailer by DIRECTV.

#### 5. ORDERS FOR SERVICE.

5.1 **ORDER PROCEDURES.** Retailer shall comply with the procedures set forth in Exhibit C attached hereto, as the same may be amended by DIRECTV from time to time upon written notice, regarding the receipt and delivery of orders for DIRECTV Programming Packages (“Orders”). All Orders shall be subject to acceptance or rejection by DIRECTV in its discretion.

5.2 **NO FINANCING OR COLLECTION OF FEES.** Retailer shall not provide financing for Subscriptions or collect Subscription fees or other money due to DIRECTV from DIRECTV subscribers (“Subscribers”), and all Subscription fees shall be billed directly to the Subscriber by DIRECTV, unless otherwise approved in writing by DIRECTV. Failure to comply with the provisions of this Section 5.2 shall be deemed a material breach by Retailer that is incurable, and shall entitle DIRECTV to immediately terminate this Agreement as set forth in Section 12.3.

## 6. COMPENSATION.

### 6.1 PREPAID PROGRAMMING COMMISSIONS.

(a) In consideration of Retailer's services in procuring Orders for DIRECTV Programming Packages, DIRECTV shall pay Retailer commissions ("Prepaid Programming Commissions") in the amount and on the terms and conditions set forth in the Commission Schedule attached hereto as Exhibit D, subject to later chargeback on the terms described in Section 6.3. The parties agree and acknowledge that the Prepaid Programming Commissions are generally payable upon "Approved Activation." For purposes of this Agreement, "Approved Activation" shall mean an activation of a DIRECTV Programming Package by an owner/lessor of a passenger vehicle registered in the Territory as a result of (a) DIRECTV's receipt of an "Order" for a DIRECTV Programming Package which is initially procured by Retailer and delivered to DIRECTV in accordance with DIRECTV's order procedures as set forth in Exhibit C; and (b) DIRECTV's acceptance of such Order as an Approved Activation, as evidenced by the attachment of Retailer's unique agent number to the corresponding customer account. Notwithstanding the foregoing, for administrative purposes, the parties agree that Retailer shall be eligible to participate in the DIRECTV program commonly referred to as the Buy-Down Program, pursuant to which Retailer will receive a portion of the Prepaid Programming Commission upon purchase of certain authorized DIRECTV Systems from participating DIRECTV System distributors. The Prepaid Programming Commission payable to Retailer will appear as credit on invoice for DIRECTV Systems purchased by Retailer from such distributor.

6.2 **EXCEPTIONS.** Retailer acknowledges that Retailer's failure to properly follow DIRECTV's order procedures can prevent any such orders from being deemed an Approved Activation for purposes of earning Prepaid Programming Commissions. DIRECTV's reasonable determination of whether Retailer has materially failed to follow DIRECTV's order procedures shall be determinative.

(a) Notwithstanding anything to the contrary herein, DIRECTV shall not be required to pay any Prepaid Programming Commissions for:

(i) any Subscription canceled prior to the commencement of service;

(ii) any Orders made by a Subscriber to Retailer prior to the Effective Date of this Agreement because such Orders shall be subject to the agreement in effect prior to the effective date of this Agreement, if any;

(iii) any Orders for DIRECTV Programming Packages delivered to DIRECTV after termination of this Agreement;

(iv) any Orders for which Retailer failed to comply with Section 2.10 of this Agreement; or

(v) any DIRECTV Programming Package sold to a residential household, recreational vehicle or marine vehicle.

(b) DIRECTV shall not be required to pay any Prepaid Programming Commission on account of payments received by DIRECTV from Subscribers after the termination of this Agreement, except as provided in Section 13.1.

### 6.3 CHARGEBACKS.

(a) All Prepaid Programming Commissions are based upon a full uninterrupted purchase of the DIRECTV Programming Package purchased by the Subscriber for the period of one (1) year (the "Commissionable Term"). If the Subscriber terminates, cancels, or disconnects (whether initiated by Subscriber or DIRECTV) his/her DIRECTV Programming Package prior to the end of the Commissionable Term, or the Subscriber fails to pay DIRECTV for the entire uninterrupted Commissionable Term of a DIRECTV Programming Package for which Retailer was paid a Prepaid Programming Commission, then DIRECTV may charge back Retailer the portion of the Prepaid Programming Commission corresponding to the unpaid portion of such Commissionable Term. For example: if DIRECTV pays \$50.00 to Retailer as a Prepaid Programming Commission requiring a Commissionable Term of one year for a DIRECTV Programming Package Subscription, and the Subscriber pays DIRECTV only for the first 9 months of such package, then DIRECTV may charge back Retailer 25% of the Prepaid Programming Commission, or \$12.50.

(b) If Retailer receives any other Prepaid Programming Commission or any other amounts to which it is not entitled hereunder, DIRECTV may charge back such amount from sums otherwise owing to Retailer.

6.4 **CHANGES.** Retailer acknowledges that the market for DBS Services is competitive and unpredictable and that DIRECTV may need to adapt its marketing cost structure to changing conditions from time to time. Accordingly, DIRECTV may change the Prepaid Programming Commissions at any time, and from time to time, in its discretion; provided that:

(a) DIRECTV shall give Retailer at least 45 days prior written notice of the effective date of any such change;

(b) a change in Prepaid Programming Commissions shall be effective only with respect to Orders transmitted to DIRECTV after the effective date of the change; and

(c) Retailer may terminate this Agreement by written notice to DIRECTV, delivered no later than 45 days after receipt of the change notice.

6.5 **SHARING COMPENSATION PROHIBITED.** Retailer shall not rebate or share any Prepaid Programming Commissions with any other third party (whether or not an authorized independent retailer or sales agent of DIRECTV). Retailer may not combine sales of DIRECTV Programming Packages with another agent/retailer. Retailer acknowledges that any orders submitted under another agent's/retailer's account number or through such other agent's electronic interface with DIRECTV, including that of a Dealer, shall not be credited to Retailer for purposes of calculating Prepaid Programming Commissions.

6.6 **SET-OFFS BY DIRECTV.** DIRECTV may set-off or recoup any amounts owed to it by Retailer, or by its subsidiaries and affiliates, pursuant to this or any other agreement with DIRECTV, and any damages suffered by DIRECTV due to Retailer's breach hereof or other misconduct, against any amounts which it owes to Retailer. The foregoing does not limit DIRECTV's right to recover any unrecouped balance.

6.7 **PAYMENT TERMS.** DIRECTV shall pay Retailer applicable Prepaid Programming Commissions within 65 days after the end of the accounting month, as determined by DIRECTV, in which the applicable Approved Activation occurs. In no event shall DIRECTV be required to pay such Prepaid Programming Commissions until such time as accrued unpaid amounts total at least \$50.

## 7. CONFIDENTIAL INFORMATION.

7.1 **DIRECTV TRADE SECRETS.** Retailer acknowledges that DIRECTV possesses and will possess confidential information concerning its DBS Service business, such as the identities and characteristics of its Subscribers, service and sales methods, advertising, promotion and marketing strategies, programming strategies, prices, design, technical specifications, performance and manufacture of its products ("Technical Information"), and the terms and conditions of this Agreement (collectively, "DIRECTV Trade Secrets"), and that Retailer might have access to the DIRECTV Trade Secrets.

7.2 **USE AND DISCLOSURE OF DIRECTV TRADE SECRETS.** Subject to Section 7.5 below, Retailer shall treat all information received from DIRECTV and designated as "Confidential" or "Proprietary" as DIRECTV Trade Secrets. Retailer acknowledges that the DIRECTV Trade Secrets constitute the valuable property of DIRECTV and shall not acquire any interest in them other than the right to utilize them in the exercise of its rights and the performance of its obligations hereunder. Retailer shall not use the DIRECTV Trade Secrets in connection with any other business or capacity, shall limit their permitted use and disclosure on a need-to-know basis, and shall maintain them in confidentiality during and for two (2) years after the term of this Agreement, provided however, that the obligation of Retailer set forth in this Section 7.2 with respect to the Technical Information shall survive the termination of this Agreement and shall be indefinite and without time limit (subject to Section 7.5).

7.3 **INDEPENDENT RETAILER TRADE SECRETS.** DIRECTV acknowledges that Retailer possesses and will possess confidential information concerning the design, technical specifications, performance and manufacture of its products ("Product Technology Information"), sales methods, advertising, promotion, marketing

strategies, prices, and proposals to manufacturers of passenger vehicles (collectively, “Retailer Trade Secrets”), and that DIRECTV might have access to these Retailer Trade Secrets.

**7.4 USE AND DISCLOSURE OF INDEPENDENT RETAILER TRADE SECRETS.** Subject to Section 7.5 below, DIRECTV shall treat all information received from Retailer and designated as “Confidential” or “Proprietary” as Retailer Trade Secrets. DIRECTV acknowledges that the Retailer Trade Secrets constitute the valuable property of Retailer and shall not acquire any interest in them other than the right to utilize them in the exercise of its rights and the performance of its obligations hereunder. DIRECTV shall not use the Retailer Trade Secrets in connection with any other business or capacity, shall limit their permitted use and disclosure on a need-to-know basis, and shall maintain them in confidentiality during and for two (2) years after the term of this Agreement, provided however, that the obligation of DIRECTV set forth in this Section 7.4 with respect to Product Technology Information shall survive the termination of this Agreement and shall be indefinite and without time limit (subject to Section 7.5).

**7.5 EXCEPTIONS.** A Party who has received Trade Secrets (“Receiving Party”) shall not be liable for disclosure or use of any Trade Secrets of the other Party (“Disclosing Party”) if such information:

- (a) is in or enters the public domain, other than by breach of this Agreement or disclosure (either deliberate or inadvertent) by the Receiving Party, prior to such disclosure or use;
- (b) is known to the Receiving Party at the time of first receipt, or thereafter becomes known to the Receiving Party prior to or subsequent to such disclosure without similar restrictions from a source other than the Disclosing Party, as evidenced by written records; or
- (c) is developed by the Receiving Party independently of any disclosure hereunder, as evidenced by written records.

Should the Receiving Party be required to disclose Trade Secrets received hereunder by order of a governmental agency, legislative body, or court of competent jurisdiction, the Receiving Party shall promptly notify the Disclosing Party thereof, and, upon the request of the latter, shall reasonably cooperate with the Disclosing Party (at the Disclosing Party’s expense) in contesting such disclosure. If after such contest disclosure is still required, then the Receiving Party shall request confidential treatment of such information from such governmental agency, legislative body, or court. Except in connection with failure to discharge responsibilities set forth in the preceding sentence, neither Party shall be liable in damages for any disclosures pursuant to such governmental, legislative, or judicial order.

**7.6 PRESS RELEASE.** Neither party shall issue an independent press release with respect to this Agreement or the transactions contemplated hereby unless mutually agreed to by both parties. Promptly after the Effective Date, the parties shall use their best reasonable efforts to agree upon a mutually acceptable press release with respect to the parties’ general business relationship under this Agreement and to jointly issue such press release at a mutually agreed upon time, but in any event, within 30 days of the Effective Date.

**8. INSURANCE.** Retailer shall maintain in force, during the term hereof and for three (3) years after the term, policies of insurance issued by reputable carriers, covering insurable risks and with limits as specified by DIRECTV on Exhibit E hereto as amended by DIRECTV from time to time upon reasonable notice to Retailer. Such policies shall name DIRECTV as an additional insured on product liability and umbrella insurance and shall provide for thirty (30) days prior written notice to DIRECTV of any material modification, cancellation, or expiration of each policy. Retailer shall deliver certificates of insurance to DIRECTV evidencing such uninterrupted coverage on DIRECTV’s request and upon any renewal of such coverage.

**9. INTELLECTUAL PROPERTY.** DIRECTV shall provide Retailer with a logo and trademark usage manual (“Usage Manual”) (which may be amended by DIRECTV from time to time in its discretion) that specifies the permitted uses of DIRECTV’s service marks, trademarks, and other commercial symbols (“Marks”). Retailer may use the Marks only in accordance with the provisions of this Agreement and the Usage Manual. Retailer shall not use any logo, trademark, service mark or trade name of any supplier of DIRECTV (including, without limitation, entities providing programming to DIRECTV) for any purpose except as expressly permitted by such supplier. Retailer shall not acquire any right to any goodwill, Mark, copyright, or other form of intellectual or commercial property of DIRECTV, except for the limited use rights expressly granted herein.

## 10. ASSIGNMENT.

10.1 **ASSIGNMENT BY DIRECTV.** This Agreement may be assigned by DIRECTV to any entity which assumes the obligations of DIRECTV hereunder and acquires the right and ability to perform them.

10.2 **ASSIGNMENT BY RETAILER.** This Agreement is made by DIRECTV in reliance on the financial, business and personal reputation of Retailer and its ownership and management. Accordingly, this Agreement may not be assigned or encumbered by Retailer.

## 11. TERM.

11.1 **TERM.** The initial term of this Agreement shall commence on the Effective Date hereof and shall continue, unless terminated in accordance herewith, for a period of five (5) years.

11.2 **RENEWAL.** Except as provided below, the term shall automatically renew, upon the same terms and conditions, for an unlimited number of successive renewal terms of one year each. Either party may elect to cancel this Agreement for any reason, effective upon the expiration of the then-current term, by delivering written notice thereof to the other party at least forty-five (45) days prior to such expiration.

12. **TERMINATION.** This Agreement shall be terminable upon the following conditions:

12.1 **TERMINATION FOR CAUSE.** DIRECTV may terminate this Agreement upon six (6) months' written notice to Retailer if Retailer's customer service, technical and/or installation standards fall below a level that DIRECTV deems satisfactory.

12.2 **REGULATORY CHANGES.** DIRECTV may terminate this Agreement immediately upon written notice to Retailer if the Federal Communications Commission or any other regulatory agency promulgates any rule or order which (a) in effect or application substantially impedes DIRECTV from fulfilling its obligations hereunder or from providing DBS Service, or (b) materially and adversely affects DIRECTV's ability to conduct a DBS Service business upon terms and conditions acceptable to DIRECTV, in its reasonable discretion.

12.3 **IMMEDIATE TERMINATION.** DIRECTV may terminate this Agreement immediately upon written notice to Retailer, without opportunity to cure, if Retailer or any of its Dealers, as applicable, (a) knowingly misrepresents the DBS Service or Programming Packages to customers or otherwise materially misleads them as to their content, rates or terms; (b) violates any law or knowingly breaches the standards of conduct set forth in Section 2.7; (c) knowingly uses or discloses DIRECTV Trade Secrets in violation of Section 7; (d) commits a material breach hereof which by its terms or nature is not curable; or (e) fails to submit, within any three (3) month period during the term of this Agreement, at least (3) Orders that are accepted as Approved Activations by DIRECTV.

12.4 **BREACH BY INDEPENDENT RETAILER.** Except as otherwise provided herein, DIRECTV may terminate this Agreement immediately upon written notice if Retailer fails to cure a breach of any material obligation hereunder which is curable, within thirty (30) days after written notice specifying such breach.

12.5 **BREACH BY DIRECTV.** Except as otherwise provided herein, Retailer may terminate this Agreement immediately upon written notice if DIRECTV fails to cure a breach of any material obligation hereunder which is curable, within thirty (30) days after written notice specifying such breach.

12.6 **BANKRUPTCY OR CESSATION OF BUSINESS.** Subject to applicable law, this Agreement shall terminate automatically upon either party's cessation of business, election to dissolve, dissolution, insolvency, failure in business, commission of an act of bankruptcy, general assignment for the benefit of creditors, any levy, attachment or foreclosure, or the enforcement of any of the rights of a secured creditor of Retailer or DIRECTV or the filing of any petition in bankruptcy or for relief under the provisions of the bankruptcy laws.

## 13. RIGHTS AND OBLIGATIONS UPON TERMINATION OR CANCELLATION.

13.1 **COMPENSATION.** DIRECTV shall pay to Retailer, after the termination hereof, (a) any unpaid Prepaid Programming Commission which was earned by Retailer prior to termination in accordance herewith, and

(b) Prepaid Programming Commissions owing for Orders which Retailer properly delivered to DIRECTV prior to termination, provided such Orders are accepted as Approved Activations by DIRECTV. DIRECTV may in its discretion withhold payment of Prepaid Programming Commissions, in whole or in part, until they are fully earned as herein provided. WITHOUT LIMITATION, RETAILER IS NOT ENTITLED TO ANY COMPENSATION WHATSOEVER FOR ORDERS WHICH ARE NOT DELIVERED TO DIRECTV, AS HEREIN REQUIRED, PRIOR TO THE EFFECTIVE DATE OF TERMINATION, EVEN IF ORDERS DELIVERED AFTER TERMINATION RESULT IN ACTIVE SUBSCRIPTIONS TO DIRECTV'S DBS SERVICE.

**13.2 OBLIGATIONS OF RETAILER.** Upon termination of this Agreement for any reason, Retailer shall immediately cease using and shall, upon request of DIRECTV, deliver to DIRECTV or destroy and certify such destruction promptly upon request: (a) any unused DIRECTV sales literature; (b) all originals and copies of completed and uncompleted Order forms and applications; and (c) all forms, directives, policy manuals and other written information and materials supplied to it by DIRECTV pursuant to this Agreement or which contain DIRECTV's Marks. On termination, Retailer shall immediately discontinue all sales of DIRECTV Programming Packages and all use of DIRECTV's Trade Secrets and shall cease to identify itself as an authorized independent retailer or sales agent for DIRECTV's DBS Service or otherwise affiliated in any manner with DIRECTV. Because of the difficulty in establishing the improper use of customer lists and other confidential information, Retailer agrees that for a period of two (2) years after termination, it shall not, on behalf of any other provider of audio/video multichannel entertainment programming packages or equipment or on its own behalf, solicit any Subscriber who was procured by Retailer and is a Subscriber as of such termination date.

**13.3 WAIVER OF CLAIMS.** EACH PARTY WAIVES ANY RIGHT TO COMPENSATION AND DAMAGES IN CONNECTION WITH THE PROPER TERMINATION OF THIS AGREEMENT IN ACCORDANCE HERewith, TO WHICH IT MIGHT OTHERWISE BE ENTITLED UNDER ANY APPLICABLE LAW. BY WAY OF EXAMPLE, BOTH PARTIES SHALL HAVE NO RIGHT, BASED ON SUCH TERMINATION, TO ANY PAYMENT FROM DIRECTV FOR LOST BUSINESS, FUTURE PROFITS, LOSS OF GOODWILL, REIMBURSEMENT OF EXPENDITURES OR INVESTMENTS MADE OR COMMITMENTS ENTERED INTO, ADVERTISING COSTS, OVERHEAD OR OTHER COSTS INCURRED OR ACQUIRED BASED UPON THE BUSINESS DERIVED OR ANTICIPATED UNDER THIS AGREEMENT.

**13.4 SURVIVAL.** The covenants and conditions herein which, by their terms or nature, extend beyond the termination or expiration of this Agreement, shall survive such termination or expiration until fully performed.

**14. FORCE MAJEURE.** Neither party shall be liable for any loss, damage, cost, delay, or failure to perform in whole or in part resulting from causes beyond such party's control, including but not limited to, fires, strikes, insurrections, riots, or requirements of any governmental authority.

**15. INDEPENDENT CONTRACTOR RELATIONSHIP.** Retailer is an independent contractor authorized during the term hereof to solicit orders for DIRECTV Programming Packages as a commissioned Retailer. Retailer is not a partner, franchisee, or employee of DIRECTV for any purpose whatsoever. The provisions of this Agreement are for the benefit only of the parties hereto, and no third party may seek to enforce, or benefit from, these provisions.

**16. INDEMNIFICATION.** Except as provided below, each party shall defend and indemnify the other, its affiliates and their respective employees, officers, and directors from and against any and all third party claims and resulting damages, costs, and other liabilities arising out of the indemnifying party's breach or alleged breach of its representations, warranties, covenants or obligations under this Agreement, negligence, or other wrongful conduct. Retailer shall defend and indemnify DIRECTV, its parents, subsidiaries, affiliates and related companies, and its and their respective employees, officers, directors, members, shareholders, successors and assignees from and against any and all claims, damages, costs, expenses (including reasonable attorneys' fees) and other liabilities arising out of or in connection with any claims of third parties: (a) for compensation or damages arising out of the termination of this Agreement or of Retailer's ability to take orders for DIRECTV Programming Packages; (b) arising from, relating to or in connection with Retailer's Products, other than a claim of a breach of DIRECTV's representations set forth in Section 18.6; or (c) arising from, relating to or in connection with a Dealer of Retailer's or an Approved Third Party related to the subject matter of this Agreement. Retailer shall have the right to control the claims for which it provides indemnity with reasonable input from DIRECTV including approval for settlement. DIRECTV shall not be required to indemnify Retailer with respect to the content of any programming (including without limitation claims relating to trademark, copyright, music, music performance and other proprietary interests) unless and solely to the extent of any applicable pass-through indemnification provided to DIRECTV

by the providers of such programming. RETAILER WAIVES ANY RIGHT TO INDEMNIFICATION ARISING OUT OF THE CONSTRUCTION, USE AND/OR OPERATION OF DIRECTV'S SATELLITE(S) AND RELATED SYSTEMS.

17. **LIMITATION OF LIABILITY.** NEITHER PARTY SHALL BE LIABLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES OF THE OTHER PARTY, WHETHER FORESEEABLE OR NOT AND WHETHER BASED ON NEGLIGENCE OR OTHERWISE EXCEPT WITH RESPECT TO CLAIMS BY OR DAMAGES AWARDED TO A THIRD PARTY AGAINST WHICH A PARTY TO THIS AGREEMENT HAS AN OBLIGATION TO DEFEND AND INDEMNIFY. PROJECTIONS OR FORECASTS BY EITHER PARTY SHALL NOT CONSTITUTE BINDING COMMITMENTS. IN NO EVENT SHALL DIRECTV'S DAMAGES TO RETAILER, UNDER THIS AGREEMENT EXCEED THE AMOUNTS PAID OR DUE TO RETAILER FOR THE SALE OF DIRECTV PROGRAMMING PACKAGES DURING THE PREVIOUS TWELVE (12) MONTH PERIOD. THE COMPENSATION PROVIDED TO RETAILER HEREUNDER REFLECTS THIS ALLOCATION OF RISK. NOTHING HEREIN SHALL LIMIT THE PARTY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 16 ABOVE.

18. **MISCELLANEOUS.**

18.1 **LAWS.** This Agreement has been entered into in the State of California and all issues with respect to the construction of this Agreement and the rights and liabilities of the parties shall be governed by the laws of the State of California, without regard to its conflicts of law rules.

18.2 **INTEGRATION.** This Agreement replaces any prior agreement, understanding and commitment between the parties regarding Retailer's appointment and performance as a commissioned independent retailer or sales agent for DIRECTV for DIRECTV Programming Packages, but specifically does not replace that certain Sales Agency Agreement between the parties hereto dated February 21, 2001, as amended on February 1, 2002. Retailer is not relying on any oral or written statements or representations made by any DIRECTV employee or representative regarding such matters other than those expressly set forth herein. The execution and delivery of this Agreement do not change, amend or otherwise affect the rights and obligations of Retailer or DIRECTV Enterprises, Inc. under the Bilateral Agreement for Exchange of Proprietary Information between DIRECTV Enterprises, Inc. and Retailer, dated January 10, 2000.

18.3 **COMPLIANCE.** Each party shall comply with all applicable laws, rules and regulations of all governmental authorities.

18.4 **EXPENSES.** Each party shall pay all of its costs and expenses under this Agreement and shall be solely responsible for the acts and expenses of its own agents and employees.

18.5 **AMENDMENTS.** Any modification of this Agreement must be in writing and signed by both parties, except as otherwise expressly provided herein. Retailer acknowledges that the Policies promulgated by DIRECTV, in accordance with Section 2.6, as well as the modifications to order procedures set forth in Exhibit C, and any changes in compensation in accordance with Section 6.4 and Section 8, as well as the modifications to insurance coverage set forth in Exhibit E, do not constitute modifications requiring Retailer's written consent.

18.6 **AUTHORIZATION; CAPACITY.**

(a) Retailer represents that the execution, delivery and performance of this Agreement have been duly authorized, that it has the full right, power, and authority to execute, deliver and perform this Agreement, and that such execution, delivery and performance do not and will not conflict with any agreement, instrument, order, judgment or decree to which it is a party or by which it is bound.

(b) Retailer represents that it is not, and agrees to immediately notify DIRECTV if it should become during the term hereof, a local telecommunications exchange carrier, interexchange carrier, alternative access provider, wireless telecommunications service provider (defined as an entity which holds a radio frequency license under Title 3 of the Communications Act of 1934, as amended) or a franchised cable company, and DIRECTV reserves the right to immediately terminate this Agreement should Retailer become such.

(c) DIRECTV represents that it (i) has the right to distribute the programming in the DIRECTV Programming Packages listed on **Exhibit B** hereto, and (ii) has no knowledge of any Federal Communications Commission statutes, laws, rules and orders applicable to it which would be violated by this Agreement or the transactions contemplated hereby.

**18.7 NO IMPLIED WAIVERS.** The failure of either party to require the performance by the other of any provision of this Agreement shall not affect in any way the right to require such performance at any later time nor shall the waiver by either party of a breach of any provision hereof be deemed a waiver of such provision.

**18.8 NOTICES.** Any notice or other written communication required or permitted to be given by this Agreement shall be deemed given when personally delivered or delivered by Federal Express or telecopied, or 3 business days after it has been sent by U.S. first-class, certified or registered mail, postage prepaid, properly addressed to the addresses set forth below the signatures herein. Retailer shall provide a minimum of ten (10) days advance written notice to DIRECTV in the event of any address or telephone change.

**18.9 INVALID OR UNENFORCEABLE PROVISIONS.** If any provision of this Agreement is determined to be invalid or unenforceable, the provision shall be deemed severed from the remainder, which shall remain enforceable. If any provision of this Agreement does not comply with any law, ordinance or regulation of any governmental or quasi-governmental authority, now existing or hereinafter enacted, such provision shall to the extent possible be interpreted in such a manner so as to comply with such law, ordinance or regulation, or if such interpretation is not possible, it shall be deemed amended, to satisfy the minimum requirements thereof.

**18.10 GOVERNMENTAL APPROVALS.** This Agreement shall be subject to all necessary approvals of local, state and federal regulatory agencies.

**18.11 TAXES.** Any taxes asserted against Retailer or DIRECTV by any governmental authority as a result of this Agreement shall be the responsibility of the parties as follows: (a) Retailer shall be responsible for any taxes or levies arising out of its performance hereunder, with the exception of any sales tax as to which DIRECTV has provided Retailer the appropriate rate and Retailer has forwarded such amount to DIRECTV; and (b) each party shall be responsible for any taxes related to its income derived hereunder.

**18.12 ARBITRATION.**

(a) Any dispute or claim arising out of the interpretation, performance, or breach of this Agreement, including without limitation claims alleging fraud in the inducement, shall be resolved only by binding arbitration, at the request of either party, in accordance with the rules of the American Arbitration Association, modified as herein provided. The arbitrators shall be, to the fullest extent available, either retired judges or selected from a panel of persons trained and expert in the subject area of the asserted claims. If the claim seeks damages of less than \$250,000, one arbitrator shall decide it. In all other cases, each party shall select one arbitrator, who shall jointly select the third arbitrator. If for any reason a third arbitrator is not selected within one month after the claim is first made, the third arbitrator shall be selected in accordance with the rules of the American Arbitration Association. The arbitrators shall apply California substantive law to the proceeding, except to the extent Federal substantive law would apply to any claim. An award may be entered against a party who fails to appear at a duly noticed hearing. The arbitrators shall prepare in writing and provide to the parties an award including factual findings and the reasons on which their decision is based. The arbitrators shall not have the power to commit errors of law or legal reasoning, and the award may be vacated or corrected on appeal to a court of competent jurisdiction for any such error. The parties agree and acknowledge that no class arbitration shall be permissible hereunder. The decision of the arbitrators may be entered and enforced as a final judgment in any court of competent jurisdiction. The parties shall share equally the arbitrator's fees and other costs of the arbitration.

(b) Notwithstanding the foregoing, the following shall not be subject to arbitration and may be adjudicated only by the Los Angeles County, California Superior Court or the U.S. District Court for the Central District of California:

(1) any dispute, controversy, or claim relating to or contesting the validity of DIRECTV's right to offer DBS Service to the public or any of DIRECTV or Retailer's Trade Secrets, confidential information or Marks; and

(2) the request by either party for preliminary or permanent injunctive relief, whether prohibitive or mandatory, or provisional relief such as writs of attachments or possession.

(c) This Section and any arbitration conducted hereunder shall be governed by the United States Arbitration Act (9 U.S.C. Section 1, et seq.). The parties acknowledge that the transactions contemplated by this Agreement involve commerce, as defined in said Act. This Section 18.12 shall survive the termination or expiration of this Agreement.

18.13 **ATTORNEYS' FEES.** In the event of any litigation or arbitration between the parties with respect to this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs of litigation, as the court or tribunal may determine.

**DIRECTV, INC.**

DIRECTV Signature: /s/ Steven J. Cox

Date: 6/21/04

Address: DIRECTV, Inc.  
2230 East Imperial Highway  
El Segundo, California 90245  
Telecopy No.: (310) 535-5499

KVH Industries, Inc.

By: /s/ Martin Kits van Heyningen  
(signature)

Martin Kits van Heyningen  
[PRINT NAME]  
Title: President and CEO

Location Address: KVH Industries, Inc.  
50 Enterprise Center  
Middletown, RI 02840

Mailing Address:

Telecopy No.: (401) 849-0045  
Telephone No.: (401) 845-3327  
Federal I.D. or Social Security Number: \_\_\_\_\_

**Check One:**

- Sole Proprietor
- Partnership
- Corporation

**NOTE: PLEASE ATTACH W-9**

SCHEDULE 1  
ANNUAL PROGRAMMING COMMITMENT AGREEMENT



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**EXHIBIT A**

**RETAILER'S DEALERS**

This Exhibit is subject to change by DIRECTV in its sole discretion. Therefore, DIRECTV can approve new Retailer's Dealers and add them to this Exhibit for purposes of this Agreement from time to time. DIRECTV can also delete certain dealers from this Exhibit in its sole discretion from time to time.

<u>COMPANY</u>	<u>STREET</u>	<u>CITY</u>	<u>STATE</u>	<u>ZIP</u>
Angel Distributing	154 Business Centre Drive	Birmingham	AL	35244
Audio Video Specialist	512 Beltline Road	Decatur	AL	35601
CKR Automotive Products, Inc.	5415 Lamco Street	Montgomery	AL	36121
CKR Mobile Electronics	2710 East South Blvd	Montgomery	AL	36116-2512
CKR Mobile Electronics	540 Northeast Blvd	Montgomery	AL	36117-2239
CKR Mobile Electronics	2259 Cobbs Ford Road	Prattville	AL	36066-7703
HiFi Buys	7509 Crestwood Blvd	Birmingham	AL	35210
HiFi Buys	1642 Montgomery Highway	Hoover	AL	35216
HiFi Buys	6275 University Drive #42	Huntsville	AL	35806
Planet Satellite	5101 Cyrus Circle	Birmingham	AL	35242
Radio Active, Inc.	3147 Pecham Parkway	Pecham	AL	35124
TNT Car Stereo	3110 Airport Blvd	Mobile	AL	36606
AC Sport NW	2201 South Thompson C-5	Springdale	AR	72964
AC Sport, Inc.	P.O. Box 6163	Sherwood	AR	72124
Extreme Auto Restylers	3117 Waco Street	Fort Smith	AR	72903
Beyond Technology	250 11th Street	Douglas	AZ	85607
Coulter-Cadillac, Inc.	1188 East Camelback Road	Phoenix	AZ	85014
Hook-up Motor Sports	3045 E. Main Street	Mesa	AZ	85213
Lund Cadillac LLC	1311 East Bell Road	Phoenix	AZ	85022
Mobile Dynamics	415 S 48th Street #101	Tempe	AZ	85281
Signature Audio	8295 E Raintree Drive	Scottsdale	AZ	85260
The Specialists	4695 N. Oracle Road	Tucson	AZ	85705
The Specialists	600 E. Fry Blvd	Sierra Vista	AZ	85635
The Specialists	4414 E. Speedway Blvd	Tucson	AZ	85712
The Specialists	5602 E. Broadway	Tucson	AZ	85711
The Specialists	6550 N. Thornydale Road #100	Tucson	AZ	85741
A1 Satellite	403 E. San Bernardino Road	Covina	CA	91723
Al & Ed's Autosound	2025 S. La Cienega	W. Los Angeles	CA	90034
Al & Ed's Autosound	1393 E. Walnut	Pasadena	CA	91106
Al & Ed's Autosound	4969 Van Nuys Blvd	Van Nuys	CA	91403
Al & Ed's Autosound	340 N. Victory Blvd	Burbank	CA	91502
Al & Ed's Autosound	12423 Wilshire Blvd	Los Angeles	CA	90025

Al & Ed's Autosound	17007 Hawthorne Blvd	Torrance	CA	90260
Al & Ed's Autosound	3131 Thousand Oaks Blvd	Thousand Oaks	CA	91360
Al & Ed's Autosound	8222 Tampa Avenue	Northridge	CA	91335
Al & Ed's Autosound	2301 S. Sepulveda Blvd	W. Los Angeles	CA	90064
Al & Ed's Autosound	1171 N. Tustin Avenue	Orange	CA	92667
Al & Ed's Autosound	16732 Beach Blvd	Huntington Beach	CA	92648
Al & Ed's Autosound	3020 W. Lincoln	Anaheim	CA	92804
Al & Ed's Autosound	6486 South Street	Lakewood	CA	90713
Al & Ed's Autosound	2518 Lincoln Blvd	Marina del Rey	CA	90291
Al & Ed's Autosound	2800 Harbor Blvd	Costa Mesa	CA	92626
Al & Ed's Autosound	600 South Brand Blvd	Glendale	CA	91204
Al & Ed's Autosound	3689 E. Colorado Blvd	Arcadia	CA	91107
Al & Ed's Autosound	1647 E. Imperial Highway	Brea	CA	92821
Al & Ed's Autosound	880 N. Rochester Blvd	Ontario	CA	91764
Al & Ed's Autosound	26705 Aliso Creek Road	Aliso Viejo	CA	92656
Al & Ed's Autosound	1175 Foothill Blvd	La Verne	CA	91750
Al & Ed's Autosound	5208 Jackson Drive #117	La Mesa	CA	92041
Al & Ed's Autosound	2070 Hacienda Drive #B	Vista	CA	92083
Al & Ed's Autosound	3740 Rosecrans Street	San Diego	CA	92110
Al & Ed's Autosound	8252 Clairemont Mesa Blvd	San Diego	CA	92111
Al & Ed's Autosound	1144 West Valley Parkway	Escondido	CA	92025
Al & Ed's Autosound	11608 Carmel Mtn Road	San Diego	CA	92128
Al & Ed's Autosound	41125 Winchester Road	Temecula	CA	92591
All-Star Limo, Inc.	8351 Malloy Drive	Huntington Beach	CA	92646
Audio Fonix	23221 Peralta Drive #A	Laguna Hills	CA	92653
Audio Toyz	28622 Oso Parkway	Rancho Santa Margarita	CA	92688
Beach Auto Sound	18042 Beach Blvd	Huntington Beach	CA	92647
Becker Automotive Design	1711 Ives Avenue	Oxnard	CA	93033
Best Sales, Inc. (dba Dealerworks)	1330 North Fourth Street	San Jose	CA	95112
Big Toys	1171 Delilah Street	Corona	CA	92879
California Automotive Concepts	1020 Hansen Way	Redwood City	CA	94063
California Car Stereo	6620 N. Blackstone Avenue #A	Fresno	CA	93710
Car Fidelity of North Hollywood	4864 Lankershim Blvd	North Hollywood	CA	91601

Car Stereo Outlet	3910 Stevens Creek Blvd	San Jose	CA	95129
Checkered Flag	8314 Sepulveda Blvd	Sepulveda	CA	91343
Competition Soundworks	17538 Studebaker Road	Cerritos	CA	90701
CPS	589 Rohnert Park Expressway	Rohnert Park	CA	94928
Cynergy Innovations, Inc.	28475 Sun City Blvd	Sun City	CA	92586
Dealer Works, Inc.	3304 Luyung Drive	Rancho Cordora	CA	95742
Executive Class Automotive Ltd	22365 El Toro Road	Lake Forest	CA	92630
Haas Auto Stereo, Inc.	5774 Uplander Way	Culver City	CA	90230
Heimburg Sales Group, Inc.	3333 Sunrise Blvd	Rancho Cordova	CA	95742
Invideo, Inc.	1123 S. Gretta Avenue	West Covina	CA	91790
Just in Time Communications, Inc.	247 North 2nd Avenue	Upland	CA	91786
LaJolla Audio	5161 Santa Fe Street	San Diego	CA	92109
Legend Customs	10427 San Sevaine Way #D	Mira Loma	CA	91752
Leisure Time Marketing	18242 Enterprise Lane	Huntington Beach	CA	92648
Lotts, Inc.	600 Pacific Avenue	Santa Cruz	CA	95060
Mark's Auto Sound	1217 E Las Tunas Drive	San Gabriel	CA	91776
MCO Electronics	124-1 Woodruff Avenue	Downey	CA	90241
Mitsubishi Electric	5665 Plaza Drive	Cypress	CA	90630-0007
Mobile Fantasy, Inc.	9353 Reseda Blvd	Northridge	CA	91324-2927
Modern Image	24571 Sunnymead Blvd	Moreno Valley	CA	92553
Pacific Audio & Alarm, Inc.	303 North Placentia Avenue	Fullerton	CA	92831
Paradyme, Inc.	1728 Fulton Avenue	Sacramento	CA	95825
Phantom Electronics	2618 E. Thousand Oaks Blvd	Thousand Oaks	CA	91362
Quixtar Communications Corporation	1000 E Dominguez Street	Carson	CA	90746
Santa Barbara Auto Stereo	3234 State Street	Santa Barbara	CA	93105
Satellite Innovations	7201 Haven Avenue #E	Rancho Cucamonga	CA	91701
Sierra Select Distributors, Inc.	4320 Roseville Road	North Highlands	CA	95660
Signal Source	5779 A-1 Winfield Blvd	San Jose	CA	95123
Sound Scape	11890 Woodruff Avenue	Downey	CA	90241
Special Vehicle Concepts	1000 W. Pacific Coast Highway	Newport Beach	CA	92663
Stereo Habitat	1450 Camden Avenue	Campbell	CA	95008
Street Sound Plus	16175 Roscoe Blvd	North Hills	CA	91343
Stretnoyz	3450-A Kurtz	San Diego	CA	92110

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T.M.S.	20928 Osborne Street #F	Canoga Park	CA	91304
The Good Guys	3021 W. Lincoln Avenue	Anaheim	CA	92801
The Good Guys	18600 Gridley Road	Artesia	CA	90701
The Good Guys	3000 Ming Avenue	Bakersfield	CA	93304
The Good Guys	820 E. Imperial Highway	Brea	CA	92821
The Good Guys	21311 Victory Blvd	Canoga Park	CA	91303
The Good Guys	2502 El Camino Real	Carlsbad	CA	92008
The Good Guys	3840 Grand Avenue	Chino	CA	91710
The Good Guys	877 East H Street	Chula Vista	CA	91910
The Good Guys	5500 Sunrise Blvd	Citrus Heights	CA	95610
The Good Guys	17523 Colima Road	City of Industry	CA	91748
The Good Guys	1280-A Willow Pass Road	Concord	CA	94520
The Good Guys	301 Corte Madera Town Center	Corte Madera	CA	94925
The Good Guys	146 Serramonte Center	Daly City	CA	94015
The Good Guys	6705 Amador Plaza Road	Dublin	CA	94568
The Good Guys	1731 East Bayshore	East Palo Alto	CA	94303
The Good Guys	5800 Christie Avenue	Emeryville	CA	94608
The Good Guys	1109 West Valley Parkway	Escondido	CA	92025
The Good Guys	1350 Gateway Plaza	Fairfield	CA	94533
The Good Guys	26542 Towne Center Drive	Foothill Ranch	CA	92610
The Good Guys	61 East Shaw Avenue	Fresno	CA	93710
The Good Guys	142 South Brand Avenue	Glendale	CA	91204
The Good Guys	664 Southland Mall	Hayward	CA	94545
The Good Guys	16672 Beach Blvd	Huntington Beach	CA	92647
The Good Guys	8657 Villa La Jolla	La Jolla	CA	92037
The Good Guys	5500 Crossmont Center Drive	La Mesa	CA	91942
The Good Guys	23451 Calle de la Louisa	Laguna Hills	CA	92653
The Good Guys	6310 East Pacific Coast Highway	Long Beach	CA	90803
The Good Guys	100 N. La Cienega	Los Angeles	CA	90048
The Good Guys	10831 West Pico Blvd	Los Angeles	CA	90064
The Good Guys	13450 Maxella Avenue	Marina Del Rey	CA	90292
The Good Guys	158 Ranch Drive	Milpitas	CA	95035
The Good Guys	3900 Sisk Road	Modesto	CA	95356

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The Good Guys	9137 Center Avenue #A	Montclair	CA	91763
The Good Guys	2345 S. Atlantic	Monterey Park	CA	91754
The Good Guys	9054 Tampa Avenue	Northridge	CA	91324
The Good Guys	146 S. Main Street	Orange	CA	92668
The Good Guys	3590 Tyler Street	Riverside	CA	92503
The Good Guys	2121 Arden Way	Sacramento	CA	95825
The Good Guys	7020 Stockton Blvd	Sacramento	CA	95823
The Good Guys	3495 Sports Arena Blvd	San Diego	CA	92110
The Good Guys	11485 Carmel Mountain Road	San Diego	CA	92128
The Good Guys	1400 Van Ness Street	San Francisco	CA	94109
The Good Guys	3201-20th Avenue	San Francisco	CA	94132
The Good Guys	2675 Geary Blvd #202	San Francisco	CA	94118
The Good Guys	3149 Stevens Creek Blvd	San Jose	CA	95117
The Good Guys	886 Blossom Hill Road	San Jose	CA	95123
The Good Guys	1960 Tully Road	San Jose	CA	95122
The Good Guys	41 West Hillsdale Avenue	San Mateo	CA	94403
The Good Guys	646 W. Hammer Lane	Stockton	CA	95207
The Good Guys	12050 Ventura Blvd	Studio City	CA	91604
The Good Guys	1247 W. El Camino Blvd	Sunnyvale	CA	94087
The Good Guys	21436 Hawthorne Blvd	Torrance	CA	90503
The Good Guys	310 S. Lake Avenue	Pasadena	CA	91101
The Good Guys	1401 Hawthorne Blvd	Redondo Beach	CA	90278
The Good Guys	2805 Santa Rosa Avenue	Santa Rosa	CA	95407
The Good Guys	24840 Pico Canyon Road	Stevenson Ranch	CA	91381
The Good Guys	2741 El Camino Real	Tustin	CA	92782
The Good Guys	390 S. Mills Road	Ventura	CA	93003
The Good Guys	2044 Mt. Diablo Blvd	Walnut Creek	CA	94596
The Good Guys	1000 West Covina Parkway	West Covina	CA	91793
The JWS Company, Inc.	2145 Greenleaf Street	Santa Ana	CA	92706
The JWS Company, Inc.	18001 Medley Drive	Encino	CA	91316
The JWS Company, Inc.	18001 Medley Drive	Encino	CA	91316
Traffic Jamz Car Audio	15721 Ventura Blvd	Encino	CA	91436
Transonic	5505 Moreno Street #104	Montclair	CA	91763

Tweeter	1144 Camino Del Rio North	San Diego	CA	92108
Tweeter	3445 Sports Arena Blvd	San Diego	CA	92110
Tweeter	1218 Broadway	Chula Vista	CA	91911
Tweeter	1346 W. Valley Parkway	Escondido	CA	92029
Tweeter	146 North El Camino Real	Encinitas	CA	92024
Tweeter	865 East H Street	Chula Vista	CA	91910
Tweeter	5504 Balboa Avenue	San Diego	CA	92111
Tweeter	72885 Hwy 111	Palm Desert	CA	92260
Tweeter	3502 Tyler Street	Riverside	CA	92503
Tweeter	5454 Grossmont Center Drive	La Mesa	CA	91942
Tweeter	3809 Grand Avenue	Chino	CA	91710
Tweeter	995 Joshua Drive	Vista	CA	92083
Upstairs Car Stereo	8778 Plata Lane	Atascadero	CA	93422
Vehicle Integrated Products	6060 Avenida Encinas	Carlsbad	CA	92008
West Coast Customs	835 West Olive Street	Inglewood	CA	90301
Willie's Motoring	525 E Manchester	Inglewood	CA	90301
Z Auto Sound	3896 Stevens Creek Blvd	San Jose	CA	95117
Zarb Electronics, Inc.	1750 California, Suite 117	Corona	CA	92881-3395
Drive-In Auto Sound	165 West Arvada	Colorado Springs	CO	80906
Drive-In Auto Sound	1352 N. Academy Blvd	Colorado Springs	CO	80907
Drive-In Auto Sound	1749 Briargate	Colorado Springs	CO	80920
Drive-In Auto Sound	1404 Hwy 50 West	Pueblo	CO	81008
Kymat LLC (dba MAXAIR)	8484 S. Valley Highway	Englewood	CO	80112
PDA, Inc.	8080 South Park Lane	Littleton	CO	80120
Quality Autosound	586 S. Chambers Road	Aurora	CO	80017
Quality Autosound	7382 Federal Blvd	Westminster	CO	80030
Quality Autosound	6895 Leetsdale Drive	Denver	CO	80224
Quality Autosound	307 W. Littleton Blvd	Littleton	CO	80120
Quality Autosound	1701 Greeley Mall	Greeley	CO	80631
Quality Autosound	5450 Arapahoe Avenue	Boulder	CO	80303
Quality Autosound	11870 N. Washington Street	Northglenn	CO	80233
Quality Autosound	8990 W. Colfax Avenue	Lakewood	CO	80215
Reil & Associates	5454 N. Washington Street	Denver	CO	80216

Reil & Associates	5454 N. Washington Street	Denver	CO	80216
Reil & Associates	5454 N. Washington Street	Denver	CO	80216
SBS Electronics	6201 West 44th	Wheat Ridge	CO	80033
Tweeter	110 Slater Street	Manchester	CT	06040
Tweeter	195 West Main Street	Avon	CT	06001
Tweeter	70 Universal Drive	North Haven	CT	06473
Tweeter	2661 Berlin Turnpike	Newington	CT	06111
Tweeter	Crystal Mall	Waterford	CT	06385
Tweeter	109 Federal Road	Danbury	CT	06810
Tweeter	1712 Boston Post Road	Milford	CT	06460
12-Volt Mobile Electronics	309 H Street N.W.	Washington	DC	20001
Myer-Emco	2241 Wisconsin Avenue	Washington	DC	20007
Sound of Tri-State	Unit 41 Tri-State Mall	Claymont	DE	19703
Tweeter	5601 Concord Pike	Wilmington	DE	19803
Tweeter	3926 Kirkwood Highway	Wilmington	DE	19808
Audio Advisors, Inc.	2273-C Palm Beach Lakes Blvd	West Palm Beach	FL	33409
Audio Empire, Inc.	4585 118th Avenue North	Clearwater	FL	33762
Auto Audio	33160 US 19 N	Palm Harbor	FL	34684
Car & Driver	176-A Glades Road	Boca Raton	FL	33432
CarTronics	1800 NW 79th Avenue	Miami	FL	33126
CarTronics	490 N.E. 167th Street	North Miami Beach	FL	33162
CarTronics	8250 Biscayne Blvd	Miami	FL	33138
CarTronics	13983 S. Dixie Highway	South Miami	FL	33176
CarTronics	7989 Pines Blvd	Pembroke Pines	FL	33024
Custom Car Works	321 N. Congress Avenue	Delray Beach	FL	33445
Five Star Car Audio & Accessories	17901 N.W. 27th Avenue	Miami	FL	33056
Fort Myers Auto Sounds, Inc.	4145 Fowler Street	Fort Myers	FL	33901
JR Electronics	9568 SW 40th Street	Miami	FL	33165
Palm Auto Security, Inc.	2919 E North Military Trail	West Palm Beach	FL	33403
Quality TV	14212 S. Timiami Trail	North Port	FL	34287
Sawgrass Dist.	P.O. Box 22985	Fort Lauderdale	FL	33335
Sawgrass Ford	14501 West Sunrise Blvd	Sunrise	FL	33323
Sherrod Vans	6464 Greenland Road	Jacksonville	FL	32258

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Sound Advice	6307 South Tamiami Trail	Sarasota	FL	34231
Sound Advice	4835 East Colonial Drive	Orlando	FL	32803
Sound Advice	614 East Altamonte Drive	Altamonte Springs	FL	32701
Sound Advice	4008 North Federal Highway	Fort Lauderdale	FL	33308
Sound Advice	2275 Palm Beach Lakes Blvd	West Palm Beach	FL	33409
Sound Advice	2925 Tyrone Blvd	St. Petersburg	FL	33710
Sound Advice	1102 East Fowler Avenue	Tampa	FL	33612
Sound Advice	351 N.E. 51st Street	Boca Raton	FL	33431
Sound Advice	7676 Peters Road	Plantation	FL	33317
Sound Advice	1431 Sandlake Road	Orlando	FL	32819
Sound Advice	27205 US Highway 19 North	Clearwater	FL	34621
Sound Advice	9590 East Atlantic Blvd	Jacksonville	FL	32211
Sound Advice	6000 Lake Gray Blvd	Jacksonville	FL	32244
Sound Advice	12200 S.W. 88th Street	Miami	FL	33186
Sound Advice	12519 Cleveland Avenue	Fort Myers	FL	33907
Sound Advice	4150 North 28 Terrace	Hollywood	FL	33021
Sound Advice	17641 Biscayne Blvd	Aventura	FL	33160
Sound Advice	4133 Tamiami Trail North	Naples	FL	34103
Sound Advice	2415 North Monroe Street	Tallahassee	FL	32303
Sound Advice	12089 US Highway 1	North Palm Beach	FL	33408
Sound Advice	2905 North Dale Mabry	Tampa	FL	33607
Sound Advice	11805 South Dixie Highway	Miami	FL	33156
Sound Advice	8805 Southside Blvd	Jacksonville	FL	32256
Sound Advice	11330 Pines Blvd	Pembroke Pines	FL	33026
Sound Advice	2501 SW 32 Terrace	Pembroke Pines	FL	33023
Speed & Truck World	1060 W Sunrise Blvd	Fort Lauderdale	FL	33311
Streamline Marketing	1737 SW Cabin Place	Palm City	FL	34990
Superior Car Stereo, Inc.	1100 South Dixie Highway	Hollywood	FL	33020
Techni-Car, Inc.	450 Commerce Blvd	Oldsmar	FL	34677
The Audio Itch of Tampa Bay	908 N. Dale Mabry	Tampa	FL	33609
TLC Coachworks	20423 State Road 7	Boca Raton	FL	33428
Ultimate Audio	3699 S. Orange Blossom Trail	Orlando	FL	32839
United Auto Radio & AC, Inc.	835 NE 2 Avenue	Fort Lauderdale	FL	33304

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American Radio	3080 Northfield Place	Roswell	GA	30076
Audio Visions	1501 East Walnut Avenue	Dalton	GA	30721
Audio Warehouse	7700 Abercorn Street	Savannah	GA	31406
Cartunes, Inc.	5834 Roswell Road	Atlanta	GA	30328
Entertainment Technology	155 Athens Highway 78	Loganville	GA	30052
Hamby, Brooks, McKenzie, Inc.	2313 Manchester Expressway	Columbus	GA	31904
HiFi Buys	2021 W. Lidell Road	Duluth	GA	30096
HiFi Buys	1062-A Johnson Ferry Road	Marietta	GA	30068
HiFi Buys	4023 Lavista Road	Tucker	GA	30084
HiFi Buys	1311-B Mt. Zion Road	Morrow	GA	30260
HiFi Buys	1155 Ernest Barrett Parkway	Kennesaw	GA	30144
HiFi Buys	2059 Scenic Highway	Snellville	GA	30078
HiFi Buys	6351 Douglas Blvd	Douglasville	GA	30135
HiFi Buys	3310 Buford Drive	Buford	GA	30519
HiFi Buys	3690 Eisenhower Parkway	Macon	GA	31206
HiFi Buys	105B Promenade Parkway	Fayetteville	GA	30214
HiFi Buys	3655 Atlanta Industrial Drive	Atlanta	GA	30331
HiFi Buys	10889 Alpharetta Highway	Roswell	GA	30076
HiFi Buys	196 Alps Road	Athens	GA	30606
HiFi Buys	3135 Peachtree Road	Atlanta	GA	30305
HiFi Buys	2545-H Hargrove Road	Smyrna	GA	30082
Ken's Audio Video, Inc.	3677 Mercer University Drive	Macon	GA	31204
Mobile Soundwaves	2955 Peachtree Road	Atlanta	GA	30309
Murray's	500 Thornton Road S-4	Lithia Springs	GA	30122
NORTHSIDE H2	1184 Spring Street (Midtown)	Atlanta	GA	30309
Ralphs Vickers & Co.	329 Frey's Gin Road	Marietta	GA	30067
Sound Proof, Inc.	7447 Douglas Blvd	Douglasville	GA	30135
Sound Sensations	337 Cobb Parkway	Marietta	GA	30062
Sound Sensations	7037 Georgia Highway 85	Riverdale	GA	30274
Zephyr Vans, Inc.	1950 Jimmie Daniel Road	Bogart	GA	30622
Ford & Garland Radio, Inc.	1304 Locust	Des Moines	IA	50309
Aspen Sound	350 Cherry Lane	Coeur D'Alene	ID	83814
Aspen Sound	8189 Westpark Avenue	Boise	ID	83704

Ideal Audio	225 Yellowstone Avenue	Pocatello	ID	83201
Nvytel	4540 W. Overland Road	Boise	ID	83705
ABC Automotive Electronics	1401 Landmeir Road	Elk Grove	IL	60007
Audiosmith	755 N. Milwaukee Avenue	Libertyville	IL	60020
Custom Sounds	5350 N. Illinois Street	Fairview Heights	IL	62208
Custom Sounds	912 Milton Road	Alton	IL	62002
Intasound Corp	(dba The Sound Advantage)	Harwood Heights	IL	60706
Mid City Cellular, Inc.	830 N. Milwaukee Avenue	Chicago	IL	60622
Music in Motion	14017 S. Cicero Avenue	Crestwood	IL	60445
Spectrum Sales, Inc.	1924 N. 78th Avenue	Elmwood Park	IL	60707
Tweeter	1202-1A West 75th Street	Downers Grove	IL	60516
Tweeter	700 W. Town Line Road	Vernon Hills	IL	60061
Tweeter	935 East Gold Road	Schaumburg	IL	60173
Tweeter	4411 Fox Valley Center Drive	Aurora	IL	60505
Tweeter	1600 West 16th Street	Oak Brook	IL	60523
Tweeter	3232 Lake Avenue	Wilmette	IL	60091
Tweeter	6119 Northwest Highway	Crystal Lake	IL	60014
Tweeter	6657 Grand Avenue	Gurnee	IL	60031
Tweeter	1175 S. Randall Road	Geneva	IL	60134
Tweeter	7201 West Lake Street	River Forest	IL	60305
Tweeter	310 North 8th Street	West Dundee	IL	60118
Tweeter	2481 S. Wolf Road	Des Plaines	IL	60018
Vogue Tyre & Rubber Co.	1101 Feehanville Drive	Mount Prospect	IL	60056
Custom Auto Stereo	3311 S. East Street	Indianapolis	IN	46227
Omni Entertainment Systems, Inc.	1151 Southpoint Drive	Valparaiso	IN	46385
Ovation Audio Video Specialists	4270 West 38th Street	Indianapolis	IN	46254
Ovation Audio Video Specialists	8802 South US 31	Indianapolis	IN	46227
Ovation Audio Video Specialists	6609 East 82nd Street	Indianapolis	IN	46250
Ovation Audio Video Specialists	2030 Sagamore Parkway	Lafayette	IN	47905
Ovation Audio Video Specialists	1005 East Highway 131	Louisville	IN	47129
Ovation Audio Video Specialists	2750 Tobey Drive	Indianapolis	IN	46219
Selective Systems Inc.	4230 S Madison Avenue	Indianapolis	IN	46227
Stewart Design	8211 Brooksville Road	Indianapolis	IN	46239

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TR Sales & Marketing	8425 Woodfield Crossing Blvd	Indianapolis	IN	46240
TR Sales & Marketing	8425 Woodfield Crossing Blvd	Indianapolis	IN	46240
KC Trends	10910 Johnson Drive	Shawnee	KS	66203
Ovation Audio Video Specialists	4001 Nicholasville Road	Lexington	KY	40503
Ovation Audio Video Specialists	4600 Shelbyville Road	Louisville	KY	40207
Ovation Audio Video Specialists	4241 Outer Loop Road	Louisville	KY	40219
Roberts Mobile Electronics	11704 Shelbyville Road	Louisville	KY	40203
Kirk's Ltd	9555 Airline Highway	Baton Rouge	LA	70815
Sunblock	11734 Highway 171 South	Leesville	LA	71446
Suncoast Sound	3233 Breard Street	Monroe	LA	71201
Wright's Sound Gallery	7600 Youree Drive	Shreveport	LA	71105
Bumper to Bumper	583 Warren Avenue	Brockton	MA	02301
Detailz Auto Accessories, Inc.	239 Turnpike Street	Canton	MA	02021
MC Entertainment/Curry Audio	91 Medway Road	Milford	MA	01757
Opus Marketing	66 Williams Avenue	Hyde Park	MA	02136
Opus Marketing	15 Hawthorne Street	Malden	MA	02148
Osprey at the Gallery, Inc.	895 Providence Highway	Norwood	MA	02062
Royale Limousine Manufacturers	99 Newark Street	Haverhill	MA	01832
Tweeter	40 Pequot Way	Canton	MA	02021
Tweeter	880 Commonwealth Avenue	Boston	MA	02215
Tweeter	14 Needham Street	Newton	MA	02159
Tweeter	One Wheeler Road	Burlington	MA	01803
Tweeter	805 Providence Highway	Dedham	MA	02026
Tweeter	86 Worcester Road	Framingham	MA	01701
Tweeter	Cape Town Plaza	Hyannis	MA	02601
Tweeter	1810 Washington Street	Hanover	MA	02339
Tweeter	30 Commerce Way	Seekonk	MA	02771
Tweeter	242 Andover Street	Peabody	MA	01960
Tweeter	444 Broadway (Route 1)	Saugus	MA	01906
Tweeter	180 Pearl Street	Braintree	MA	02184
Tweeter	27 Holyoke Street	Holyoke	MA	01040
Tweeter	Route 1 Allen Avenue	North Attleboro	MA	02760
Tweeter	441 Southbridge Street	Auburn	MA	01501

Tweeter	10 Pequot Way	Canton	MA	02021
Myer-Emco	10492 Auto Park Drive	Bethesda	MD	20817
Myer-Emco	2B Bureau Drive	Gaithersburg	MD	20878
Myer-Emco	1030 West Patrick Street	Frederick	MD	21703
Tweeter	6455 Dobbin Road	Columbia	MD	21045
Tweeter	10391 Reisertown Road	Baltimore	MD	21208
Tweeter	579 Baltimore Pike	Bel Air	MD	21014
Tweeter	585 East Ordnance Road	Glen Burnie	MD	21060
Tweeter	1017 York Road	Towson	MD	21093
Tweeter	11611 Old Georgetown Road	Rockville	MD	20852
Radio City, Inc.	175 Apple Road	Lewiston	ME	04240
Tweeter	335 Main Mall Road	S. Portland	ME	04106
Area Auto Service, Inc.	14300 Telegraph	Taylor	MI	48180
Auto America, Inc.	2366 Dix Highway	Lincoln Park	MI	48146
Auto Ameristar Licensing Co.	34043 Ford Road	Westland	MI	48185
Auto Glass, Tint & Accessories, Inc.	32056 Van Dyke	Warren	MI	48093
Ben-Jas Enterprises, Inc.	8912 Telegraph	Redford	MI	48239
Blackmer-Dieringer Mgt., Inc.	1705 E. West Maple	Walled Lake	MI	48390
Car Tunes Stereo Center, Inc.	7163 Allen Road	Allen Park	MI	48101
Car Tunes Stereo Center, Inc.	6395 Allen Road	Allen Park	MI	48101
Car Tunes Stereo Center, Inc.	27051 Woodard Avenue	Berkley	MI	48072
Car Tunes Stereo Center, Inc.	31560 Gratiot Avenue	Roseville	MI	48066
Car Tunes Stereo Center, Inc.	7150 North Wayne Road	Westland	MI	48185
Cars N Concepts	52161 U.S. Highway 131	Three Rivers	MI	49093
DLJ Auto Excellence, Inc.	605 W. Ann Arbor Road	Plymouth	MI	48170
KVH Industries, Inc.	2419 Kinglet Court	Lansing	MI	48911
New Wave Auto Fashions, Inc.	21919 Allen Road	Woodhaven	MI	48183
Nu Star LLC, Inc.	3771 Elizebeth Lake Road	Waterford	MI	48328
PK Partners, Inc.	34043 Ford Road	Westland	MI	48185
Digital Home & Business	5600 Queens Avenue	Ostego	MN	55330
Mobile Innovations, Inc.	10817 Irwin Avenue South	Bloomington	MN	55437
Custom Sounds	6960 S. Lindbergh	St. Louis	MO	63129
Custom Sounds	1940 N. Highway 67	Florissant	MO	63033

Custom Sounds	247 Mid Rivers Mall Drive	St. Peters	MO	63376
Custom Sounds	9809 Watson Road	St. Louis	MO	63126
Custom Sounds	12160 St. Charles Rock Road	Bridgeton	MO	63044
Lynch Hummer	2530 East Pitman Avenue	O'Fallon	MO	63366
R&R Sales Co.	416 Big Bear Blvd	Columbia	MO	65202-3711
Stereo One (Car Fi)	345 Kings Highway	Cape Girardeau	MO	63703
Stereo One (Car Fi)	1600 S Glenstone	Springfield	MO	65804
	26 Ponca Trail	Kirkwood	MO	63122
Empress Audio	3419 Market Street	Pascagoula	MS	39567
Empress Audio	8080 Highway 49	Gulfport	MS	39502
Empress Audio	321 Cross Park Drive	Pearl	MS	39208
Aspen Sound	1300 W. Broadway	Missoula	MT	59802
Holden's Hot Wheels	424 2nd Street	Havre	MT	59501
Car Audiomasters, Inc.	605 North Polk Street	Pineville	NC	28134
Carolina Custom Center	960 Old Winston Road	Kernersville	NC	27284
Carwell Automotive, Inc.	2010 Crooked Creek Road	Clayton	NC	27520
Freeman's Car Stereo	215 Lawton Road	Charlotte	NC	28216
Freeman's Car Stereo	1641 East Franklin Blvd	Gastonia	NC	28054
Freeman's Car Stereo	4821 South Blvd	Charlotte	NC	28217
Freeman's Car Stereo	3039 East Independence Blvd	Charlotte	NC	28205
Freeman's Car Stereo	675 Concord Parkway North	Concord	NC	28027
Freeman's Car Stereo	2030 Higwah 70 S.E.	Hickory	NC	28602
Freeman's Car Stereo	19010 Statesville Road	Cornelius	NC	28031
Freeman's Car Stereo	606 Stratford Road	Winston-Salem	NC	27104
Freeman's Car Stereo	3828 Highpoint Road	Greensboro	NC	27407
Freeman's Car Stereo	6149 Independence Blvd	Charlotte	NC	28212
Hendrick Chevrolet	100 Cary Auto Mall Drive	Cary	NC	27511
Now! Audio Video	5417 Sapp Road	Greensboro	NC	27409
Now! Audio Video	1606-A S. Stratford Drive	Winston-Salem	NC	27103
Now! Audio Video	7105 Glenwood Avenue	Raleigh	NC	27612
Now! Audio Video	1810 Martin Luther King Jr. Pkwy	Durham	NC	27707
Now! Audio Video	337 Crossroads Blvd	Cary	NC	27511
Now! Audio Video	510 Meadowland Drive	Hillsborough	NC	27278

Pro Electronics	1408 S. Saunders Street	Raleigh	NC	27603
Teaka Toys LLC	310 North Front Street	Wilmington	NC	28401
Tops & Trends, Inc.	700 Park Centre Drive	Kernersville	NC	27284
Tweeter	4646 East Independence Blvd	Charlotte	NC	28212
Tweeter	5415 South Boulevard	Charlotte	NC	28210
Tweeter	9604 North Tryon Street	Charlotte	NC	28262
Electronics Marketing, Inc.	4438 13th Avenue South	Fargo	ND	58106
Audio Video Specialist	1640 N Bell	Fremont	NE	68025
Custom Car Stereo	13 Plaistow Road	Plaistow	NH	03865
Tweeter	301 South Broadway	Salem	NH	03079
Tweeter	2001 Woodbury Avenue	Newington	NH	03801
Tweeter	293 Daniel Webster Highway	Nashua	NH	03060
Tweeter	1111 S. Willow	Manchester	NH	03103
6th Avenue Electronics	331 Route 4 West	Paramus	NJ	07652
6th Avenue Electronics	1734 Route 46 West	West Paterson	NJ	07424
6th Avenue Electronics	612 West Mt. Pleasant Ave	Livingston	NJ	07039
6th Avenue Electronics	22 Route 22 West	Springfield	NJ	07081
6th Avenue Electronics	950 US 1 North	Woodbridge	NJ	07095
6th Avenue Electronics	545 Route 18 South	East Brunswick	NJ	08816
6th Avenue Electronics	310 Route 36 East	West Long Branch	NJ	07764
Gerber RV & Auto Center	434 Demarest Avenue	Closter	NJ	07624
In Toons LLC	11 Phyllis Street	Hazlet	NJ	07730
Mobile Innovations	176 Route 46 East	Lodi	NJ	07644
Opus Marketing	46 Tarn Drive	Morris Plains	NJ	07950
Opus Marketing	46 Tarn Drive	Morris Plains	NJ	07950
Opus Marketing	46 Tarn Drive	Morris Plains	NJ	07950
Sammsound	1103 Bloomfield Avenue	West Caldwell	NJ	07006
Sound Effects	174 Route 17 North	Paramus	NJ	07652
SR Communications	1525 Prospect Street	Lakewood	NJ	08701
Suburban Auto Radio, Inc.	219 White Horse Pike	Oaklyn	NJ	08107
Tweeter	Route 38 & Alexander Avenue	Maple Shade	NJ	08052
Tweeter	3311 Brunswick Place	Lawrenceville	NJ	08648
Tweeter	1563 Almonesson Road	Deptford	NJ	08096

Tweeter	4215 Black Horse Pike	May's Landing	NJ	08336
Paradise Village Inc.	4205 San Mateo N.E.	Albuquerque	NM	87110
Towne Crier Inc.	2121 Main	Clovis	NM	88101
702 Motoring	5075 S. Decatur Blvd	Las Vegas	NV	89118
Audio Xcellence	6255 McLeod Drive #17	Las Vegas	NV	89120
The Good Guys	4580 West Sahara Avenue	Las Vegas	NV	89102
The Good Guys	4979 South Virginia	Reno	NV	89502
B&G Auto Distributors, Inc.	421 5th Avenue	Pelham	NY	10803
Best Tire & Car Audio	736 Northern Blvd	Great Neck	NY	11021
Bestway Coach Express, Inc.	2 Mott Street	New York	NY	10013
C.C. Electronics Installations	60 Willow Road	Watermill	NY	11976
Concept 2000	1130-C Zerega Avenue	Bronx	NY	10462
Crown Auto Parts Co., Inc.	135-01 Northern Blvd	Flushing	NY	11354
Custom Creations Superb Sound & Security	2950 Avenue U	Brooklyn	NY	11229
Custom Kraft, Inc.	810 Pennsylvania Avenue	Brooklyn	NY	11207
In Vision, Inc.	1164 Sunrise Highway	Bayshore	NY	11706
P&L Electronics, Inc.	7718 Flaltamds Avenue	Brooklyn	NY	11236
Tweeter	161 Washington Road	Albany	NY	12205
Ultra Sounds	237 Merrick Road	Lynnbrook	NY	11563
Ultrasmith Systems, Inc.	554 West 38th Street	New York	NY	10018
Audi Visions, Inc.	P.O. Box 33578	Cleveland	OH	44133
Columbus Car Audio	2711 Morse Road	Columbus	OH	43231
Columbus Car Audio	2933 Morse Road	Columbus	OH	43231
Columbus Car Audio	6570 Riverside Drive	Dublin	OH	43017
Columbus Car Audio	3784 West Broad Street	Columbus	OH	43228
Columbus Car Audio	1922 Brice Road	Reynoldsburg	OH	43068
Electra Sound, Inc.	5260 Commerce Parkway West	Parma	OH	44130
Funtrail Vans	3966 Indianola Ave.	Columbus	OH	43214
Horizon Audio, Inc.	5480 Whipple Avenue NW	North Canton	OH	44720
Mobile Electronics	2330 Morse Road	Columbus	OH	43229
Park Performance	516 4th Street N.W.	New Philadelphia	OH	44663
Car Trends	4833 South Memorial Drive	Tulsa	OK	74145
David Lee Marketing	P.O. Box 6310	Edmond	OK	73083

David Lee Marketing, Inc.	3900 South Broadway	Edmond	OK	73013
David Lee Marketing, Inc.	3900 South Broadway	Edmond	OK	73013
David Lee Marketing, Inc.	3900 South Broadway	Edmond	OK	73013
Freightliner Specialty Vehicles, Inc.	2300 S. 13th Street	Clinton	OK	73601
Kenny's Auto Accessories	7737 E 42nd Place	Tulsa	OK	74145
Country Coach, Inc.	135 E. 1st Avenue	Junction City	OR	97448
Progressive Audio, Inc.	1313 Court Street	Medford	OR	97501
Sound Choice, Inc.	730 S.E. Powell Blvd	Portland	OR	97202
Sounds Fast	142 N.E. Revere Avenue	Bend	OR	97701
Soundsational Car Audio	2940 W 11th Avenue	Eugene	OR	97402
Stereo King Oregon, Inc.	12119 S.E. 82nd Avenue	Portland	OR	97266
The Good Guys	1024 Green Acres Road	Eugene	OR	97408
The Good Guys	11549 N.E. Glen Widing Road	Portland	OR	97220
The Good Guys	9009 S.W. Hall Blvd	Tigard	OR	97223
Perzan Auto Radio, Inc.	6409 Market Street	Upper Darby	PA	19082
Tweeter	1502 Whitehall Mall	Whitehall	PA	18052
Tweeter	9183 Roosevelt Blvd	Philadelphia (NE)	PA	19114
Tweeter	4850 Carlisle Pike	Mechanicsburg	PA	17055
Tweeter	166 Montgomery Mall	North Wales	PA	19454
Tweeter	2920 Whiteford Road	York	PA	17402
Tweeter	502 N. Oxford Valley Road	Langhorne	PA	19047
Tweeter	601 Baltimore Pike	Springfield	PA	19046
Tweeter	5125 Jonestown Road	Harrisburg	PA	17112
Tweeter	1001 Ridge Pike	Conshohocken	PA	19428
Tweeter	320 S. Henderson Road	King of Prussia	PA	19406
Tweeter	1665 State Hill Road	Wyomissing	PA	19610
Tweeter	268 Dekalb Pike	King of Prussia	PA	19406
Tweeter	898-D Plaza Blvd	Lancaster	PA	17601
Tweeter	2500 Moreland Road	Willow Grove	PA	19090
Sound FX	339 Quaker Lane	West Warwick	RI	02893
Sound FX	40 Highland Avenue	E. Providence	RI	02914
Tweeter	21 Universal Blvd	Warwick	RI	02886
CMA Inc.	2216 Gold Hill Road	Fort Mill	SC	29708

CMA Inc.	2216 Gold Hill Road	Fort Mill	SC	29715
CMA Inc.	2216 Gold Hill Road	Fort Mill	SC	29715
CMA Inc.	2216 Gold Hill Road	Fort Mill	SC	29715
Freeman's Car Stereo	2205 Cherry Road	Rock Hill	SC	29732
HiFi Buys	525 Haywood Road	Greenville	SC	29670
HiFi Buys	1748 Town Centre Way	Mt. Pleasant	SC	29464
HiFi Buys	225 West Blackstock Road	Spartanburg	SC	29301
Rogers Stereo	525 Woodruff Road	Greenville	SC	29607
Rogers Stereo	1233 Asheville Highway	Spartanburg	SC	29303
Rogers Stereo	113 Beltline Blvd	Anderson	SC	29622
Rogers Stereo	5411 Two Notch Road	Columbia	SC	29223
American Radio	8105 Kingston Pike	Knoxville	TN	37919
Cars & Trucks, Etc.	5390 Fox Plaza Drive	Memphis	TN	38115
CarTronics	1815 Gallatin Road North	Madison	TN	37115
CarTronics	5177 Hickory Hollow Parkway	Antioch	TN	37013
Now! Audio Video	8416 Kingston Pike	Knoxville	TN	37919
Stereo One	2408 Lamar Avenue	Memphis	TN	38114
Tweeter	2114 Gunbarrel Road	Chattanooga	TN	37412
Tweeter	2106 Gallatin Pike N	Madison	TN	37115
Alamo Auto Supply	5923 Gateway West	El Paso	TX	79925
Autosat TV	2384 S. Dairy Ashford	Houston	TX	77077
Bonnie & Clyde	11311 Harry Hines #104	Dallas	TX	75229
Clear Lake Car Stereo	382 West Main Street	League City	TX	77573
Custom Car Stereo	7320 Southwest Freeway #120	Houston	TX	77074
Custom Sounds	1200 S. Congress Avenue	Austin	TX	78704
Custom Sounds	3909 IH35	Austin	TX	78722
Custom Sounds	13026 Research Blvd	Austin	TX	78750
Custom Sounds	8215 Research Blvd	Austin	TX	78758
Custom Sounds	7077 San Pedro	San Antonio	TX	78216
Custom Sounds	5388 Walzem Road	San Antonio	TX	78218
Custom Sounds	5720 Bandera Road	San Antonio	TX	78238
Custom Sounds	210 Hutchison Street	San Marcos	TX	78666
Custom Sounds	7320 N. Mopac	Austin	TX	78731

David Lee Marketing, Inc.	10114 Champa	Dallas	TX	75218
Dent Doctor of North Texas	2922 County Road 338	McKinney	TX	75071
Executive Motoring	1208 Gessner Road	Houston	TX	77055
Grand Prairie Audio Tint & Security, Inc.	1418 W Main Street	Grand Prairie	TX	75050
Hawk Electronics	5718 Airport Freeway	Fort Worth	TX	76117
Hawk Electronics	1216 W. Henderson	Cleburne	TX	76033
Hawk Electronics	3201 W. Airport Freeway	Irving	TX	75062
Hawk Electronics	3801 West George Bush Highway	Plano	TX	75075
Hawk Electronics	1109 Northwest Highway	Garland	TX	75041
Hawk Electronics	5759 SW Green Oaks Blvd	Arlington	TX	76017
Hawk Electronics	5010 S. Hulen Street	Fort Worth	TX	76132
Hawk Electronics	6411A Camp Bowie Blvd	Fort Worth	TX	76116
Hawk Electronics	333 S.W. Wilshire Blvd	Burleson	TX	76028
Hawk Electronics	8345 Agora Parkway	Selma	TX	78154
Hawk Electronics	9993 IH-10 West	San Antonio	TX	78230
Hawk Electronics	1617 N. Valley Mills Drive	Waco	TX	76710
Hawk Electronics	1623 S. 1st Street	Lufkin	TX	75901
Jack's Mobile Electronics	1016 N. Valley Mills Drive	Waco	TX	76710
JR Custom Auto	150 East Airport Freeway	Irving	TX	75062
LWC Automotive Corp.	3603 Fredericksburg Road	San Antonio	TX	78201
Martin Autopark	516 S Washington	Cleveland	TX	77327
Mike's Stereo Shop	304 South Timberland	Lufkin	TX	75901
Mobile One	7039 Southwest Freeway	Houston	TX	77074
Mobile One	11040 Kingspoint Road	Houston	TX	77075
Mobile One	2507 FM 1960 West	Houston	TX	77068
Mobile One	6650 South Highway 6	Houston	TX	77083
Mobile One	10516 Old Katy Road	Houston	TX	77043
Mobile One	13469 East Freeway	Houston	TX	77015
Mobile One	25919 Interstate 45 North	Spring	TX	77380
Mobile One	9771-A FM 1960 Bypass West	Humble	TX	77338
Music Systems	4021 N. Mesa	El Paso	TX	79902
Music Systems	11245 Rojas	El Paso	TX	79935
Performance Car Audio	3703 Nedeland Avenue	Nedeland	TX	77627

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Progressive Concepts, Inc.	5718 Airport Freeway	Fort Worth	TX	76117
Protech Electronics, Inc.	3884 S. Shiloh Road #100	Garland	TX	75041
Regency Conversions	2800 Golden Triangle Blvd	Fort Worth	TX	76177-7016
Rick's Detailing	5146 Ayers	Corpus Christi	TX	78415
Star Customs, Inc.	8950 Research Blvd	Austin	TX	78758
The Monster Sound	1400 Airway Blvd	El Paso	TX	79925
The Warehouse	6600 Montana, Suite Q	El Paso	TX	79925
TNT Audio	4803 N. Navarro	Victoria	TX	77904
Travis & Associates	8278 Warren Road	Houston	TX	77040
Tunes & Tint	2303 S. Western Street	Amarillo	TX	79109
Tweeter	2595 Preston Road	Plano	TX	75034
Tweeter	Frostwood Retail Center	Houston	TX	77024
Tweeter	20210 Eastex Freeway	Humble	TX	77024
Tweeter	2260 S. Interstate Hwy 35 East	Lewisville	TX	75067
Tweeter	Woodridge Plaza	Woodlands	TX	77385
Tweeter	18980 Gulf Freeway	Friendswood	TX	77546
Tweeter	2821 Southlake Blvd	Southlake	TX	76092
Tweeter	18671 Interstate Hwy 635	Mesquite	TX	75150
Tweeter	1150 Fry Road	Houston	TX	77084
Tweeter	6615 Roxburgh	Houston	TX	77041
Tweeter	3325 Garden Brook Drive	Dallas	TX	75234
Tweeter	5310 Kirby Drive	Houston	TX	77005
Tweeter	6522B Westheimer Road	Houston	TX	77057
Tweeter	4752 FM 1960 West	Houston	TX	77069
Tweeter	13900 Dallas Parkway	Dallas	TX	75240
Tweeter	9100 N Central Expressway	Dallas	TX	75225
Vecom USA Int'l, Inc.	dba Sound Connection	Laredo	TX	78041
Woody's Car Stereo & Electronics	5300 Camp Bowie Blvd	Fort Worth	TX	76107
Yah-Te-Hay Pickup Accessories	808 E. Highway 121	Lewisville	TX	75057
Air Repair Accessories	3665 South 300 West	Salt Lake City	UT	84115
Innovative Car Audio	8600 South 700 East	Sandy	UT	84070
Innovative Car Audio	3901 West 5400 Street	Taylorsville	UT	84118
Innovative Car Audio	297 North Bluff Road	St. George	UT	84470

DirListforExcelOutput

Audio Express	1409 Williamson Road	Roanoke	VA	24012
Audio Express	1236 Jefferson Davis Highway	Fredericksburg	VA	22401
Audio Express	6101 W. Broad Street	Richmond	VA	23230
Audio Express	8253 Midlothian Turnpike	Richmond	VA	23235
Audio Express	40 Southgate Square	Colonial Heights	VA	23834
Audio Express	11201 Midlothian Turnpike	Richmond	VA	23235
Audio Express	6101 West Broad Street	Richmond	VA	23230
Car Spa, Inc.	3846 S. Four Mile Run Drive	Arlington	VA	22206
Crutchfield Corporation	1 Crutchfield Park	Charlottesville	VA	22911
Crutchfield Corporation	1663 East Market Street	Harrisonburg	VA	22801
Crutchfield Corporation	1784 Rio Hill Center	Charlottesville	VA	22901
Discount Auto Sound	5479 Virginia Beach Blvd	Virginia Beach	VA	23462
Discount Auto Sound	818 E. Little Creek Road	Norfolk	VA	23518
Discount Auto Sound	200 Ed Wright Lane	Newport News	VA	23606
Discount Autosound	805 Live Oak Drive	Chesapeake	VA	23320
Jim Weaver Satellite	15488 School Street	Bowling Green	VA	22427
Mobil Satellite Technologies	1500 Technology Drive	Chesapeake	VA	23320
Music Solution	7537 Carrollton Pike	Galax	VA	24333
Myer-Emco	3511 Carlin Springs Road	Falls Church	VA	22041
Myer-Emco	12300 Price Club Plaza Drive	Fairfax	VA	22030
Myer-Emco	8138 Watson Street	Tyson's Corner	VA	22102
Myer-Emco	2800 Clarendon Blvd	Arlington	VA	22201
Myer-Emco	47100 Community Plaza	Sterling	VA	20164
Tweeter	10890 Lee Highway	Fairfax	VA	22031
Tweeter	5857 Leesburg Pike	Baileys Crossing	VA	22441
Tweeter	1500 Central Park Blvd	Fredericksburg	VA	22401
Tweeter	7381 Sudley Road	Manassas	VA	20109
Winchester Discount Outlet	64 W. Jubal Early Drive	Winchester	VA	22601
Aspen Sound	7316 N. Division	Spokane	WA	99208
Aspen Sound	14009 E. Sprague Avenue	Spokane Valley	WA	99202
Innovative Audio	2021 130th Avenue W.	Bellevue	WA	98005
KVH Industries, Inc.	13614 13th Avenue N.W.	Gig Harbor	WA	98332
N&S Marketing and Sales	19023 36th Avenue W	Lynnwood	WA	98036

DirListforExcelOutput

N&S Marketing and Sales	19023 36th Avenue W	Lynnwood	WA	98036
Nuts About HiFi	10100 Silverdale Way	Silverdale	WA	98383
Performance Auto Sound	1314 N Wenatchee Avenue	Wenatchee	WA	98801
Performance Auto Sound	1314 Wenatchee Avenue	Wenatchee	WA	98801
Performance Auto Sound	938 West Third Avenue	Moses Lake	WA	98837
Performance Auto Sound	3500 West Clearwater Avenue	Kennewick	WA	99336
Performance Auto Sound	2210 South First Street	Yakima	WA	98903
Performance Auto Sound	1722 East Isaacs	Walla Walla	WA	99362
The Good Guys	601 106th Avenue N.E.	Bellevue	WA	98004
The Good Guys	200 East Bellis Fair Parkway	Bellingham	WA	98225
The Good Guys	19800 44th Avenue W.	Lynnwood	WA	98036
The Good Guys	1530 Black Lake Blvd	Olympia	WA	98502
The Good Guys	120 31st Avenue S.E.	Puyallup	WA	98374
The Good Guys	300 Andover Park West #500	Tukwila	WA	98118
Project Two Customs LLC	2303 Badger Drive	Waukesha	WI	53188
Pyramid Coach Corporation	102 Freedom Lane	Janesville	WI	53456
Cole Motor Sports	Route 460 - Green Valley	Bluefield	WV	24701
17th Street Audio & Security	310 E. 17th Street	Cheyenne	WY	82001

**EXHIBIT B**

**DIRECTV PROGRAMMING PACKAGES**

(Effective as of the Effective Date, and shall continue until replaced by DIRECTV)

**Total Choice Mobile Programming Package** (containing those video, audio and data programming services selected by DIRECTV in its sole discretion)

\$39.99 per month per non-DIRECTV residential subscriber.

\$4.99 per month per existing DIRECTV residential subscriber only.

**EXHIBIT C****ORDER PROCEDURES**

DIRECTV and Retailer will work together to identify necessary electronic communications interfaces between Retailer and DIRECTV to allow Retailer to perform automated account set-up and processing from a specified location of Retailer, in a manner which complies with the technical parameters and/or standards specified by DIRECTV. Each of Retailer and DIRECTV shall be responsible for implementing and bearing the costs associated with their respective interfaces. Retailer shall pay any telephone line costs associated with the electronic communications interface link between Retailer and the Electronic Data Interchange address (or other applicable computer interface connection point) where DIRECTV accesses the Orders Retailer transmits to DIRECTV. Retailer shall transmit, for each Order, the Required Subscriber Information and shall use commercially reasonable efforts to submit the Requested Subscriber Information.

Retailer hereby covenants that Retailer will maintain and only use, an electronic communications interface which complies with the technical parameters and/or standards specified by DIRECTV; provided, however, other methods for transmitting and confirming orders (such as facsimile) may be used only when the electronic communications interface is unavailable and DIRECTV provides Retailer advance written notice that Retailer may use such methods. Retailer agrees to pay those additional costs incurred by DIRECTV that are directly related to the use of such other method, if use of such other method is the result of action or inaction by Retailer, or is associated with a problem or deficiency in Retailer's equipment.

After receiving an authorization request message from Retailer's automated account set-up system, DIRECTV shall, upon acceptance of such request, establish a pending account for the subscriber.

**EXHIBIT D**

**COMMISSION SCHEDULE**

(Effective Date: Upon Execution of this Agreement by the parties)

\*\* This material has been omitted pursuant to a request for confidential treatment and has been filed separately with the SEC. One page was omitted pursuant to a request for confidential treatment and filed separately with the SEC.

EXHIBIT E  
INSURANCE COVERAGE

**ACORD™ CERTIFICATE OF LIABILITY INSURANCE**

DATE (MM/DD/YY)  
06/04/04

**PRODUCER**

Hilb Rogal & Hobbs  
99 High Street  
Boston, MA 02110-2320  
617 348-1900

**THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.**

**INSURERS AFFORDING COVERAGE**

NAIC #

INSURER A: **St. Paul Fire & Marine**  
INSURER B:  
INSURER C:  
INSURER D:  
INSURER E:

**INSURED**

KVH Industries, Inc.  
50 Enterprise Center  
Middletown, RI 02842

**COVERAGES**

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	ADD'L INSRD	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
A		<b>GENERAL LIABILITY</b> <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> _____ <input type="checkbox"/> _____ GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PROJECT <input type="checkbox"/> LOC <b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS <input type="checkbox"/> _____ <input type="checkbox"/> <b>GARAGE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/>	TE06902500	10/01/03	10/01/04	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 250,000 MED EXP ( Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000  COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ AUTO ONLY - EA ACCIDENT \$ OTHER THAN AUTO ONLY: EA ACC \$ AGG \$
A		<b>EXCESS/UMBRELLA LIABILITY</b> <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> DEDUCTIBLE  <input checked="" type="checkbox"/> RETENTION \$ 10000 <b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? If yes, describe under SPECIAL PROVISIONS below  <b>OTHER</b>	TE06902500	10/01/03	10/01/04	EACH OCCURRENCE \$ 10,000,000 AGGREGATE \$ 10,000,000 \$ \$ \$ <input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES / EXCLUSIONS ADDED BY ENDORSEMENT / SPECIAL PROVISIONS  
Certificate Holder is added as Additional Insured under Commercial General Liability and Umbrella Liability ATIMA

**CERTIFICATE HOLDER**

DIRECTV, Inc.  
2230 East Imperial Highway  
El Segundo, CA 90245

**CANCELLATION**

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

**AUTHORIZED REPRESENTATIVE**

/s/ Illegible

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**IMPORTANT**

If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

**DISCLAIMER**

The Certificate of Insurance on the reverse side of this form does not constitute a contract between the issuing insurer(s), authorized representative or producer, and the certificate holder, nor does it affirmatively or negatively amend, extend or alter the coverage afforded by the policies listed thereon.

ACORD 25-S (2001/08) 2 of 2

#77469

**PRODUCER**

Aon Risk Services, Inc. of Rhode Island  
50 Kennedy Plaza  
10th Floor  
Providence RI 02903-2393

**THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.**

**COMPANIES AFFORDING COVERAGE**

- COMPANY A      **Fairfield Insurance Co**
- COMPANY B
- COMPANY C
- COMPANY D

**PHONE** - (866) 266-7475      **FAX** - (866) 467-7847

**INSURED**

KVH Industries, Inc.  
50 Enterprise Center  
Office Park  
Middletown RI 028400000 USA

**COVERAGES**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
	<b>GENERAL LIABILITY</b> <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR <input type="checkbox"/> OWNER'S & CONTRACTOR'S PROT <input type="checkbox"/> _____ <input type="checkbox"/> _____				GENERAL AGGREGATE PRODUCTS - COMP/OP AGG PERSONAL & ADV INJURY EACH OCCURRENCE FIRE DAMAGE (Any one fire) MED EXP (Any one person)
	<b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS <input type="checkbox"/> _____ <input type="checkbox"/> _____				COMBINED SINGLE LIMIT  BODILY INJURY (Per person) BODILY INJURY (Per accident)  PROPERTY DAMAGE
	<b>GARAGE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> _____ <input type="checkbox"/> _____				AUTO ONLY - EA ACCIDENT OTHER THAN AUTO ONLY: <span style="float: right;">EACH ACCIDENT AGGREGATE</span>
	<b>EXCESS LIABILITY</b> <input type="checkbox"/> UMBRELLA FORM <input type="checkbox"/> OTHER THAN UMBRELLA FORM				EACH OCCURRENCE AGGREGATE
A	<b>WORKER'S COMPENSATION AND EMPLOYERS' LIABILITY</b>  THE PROPRIETOR/ PARTNERS/EXECUTIVE <input type="checkbox"/> INCL OFFICERS ARE: <input type="checkbox"/> EXCL	1100001360 WORKERS COMP (OTHER STATES)	05/10/04	05/10/05	<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER EL EACH ACCIDENT      \$ 500,000  EL DISEASE-POLICY LIMIT      \$ 500,000  EL DISEASE-EA EMPLOYEE      \$ 500,000

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS  
Workers Compensation for CA, IL & FL

**CERTIFICATE HOLDER**

DIRECTV  
2230 EAST IMPERIAL HIGHWAY  
EL SEGUNDO CA 90245 USA

**CANCELLATION**

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT. BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

**AUTHORIZED REPRESENTATIVE**

**ACORD™ CERTIFICATE OF LIABILITY INSURANCE**

DATE (MM/DD/YY)  
06/04/04

**PRODUCER**

Aon Risk Services, Inc. of Rhode Island  
50 Kennedy Plaza  
10th Floor  
Providence RI 02903-2393

**THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.**

**COMPANIES AFFORDING COVERAGE**

COMPANY  
A Lmi Insurance co  
COMPANY  
B  
COMPANY  
C  
COMPANY  
D

PHONE - (866) 266-7475 FAX - (866) 467-7847

**INSURED**

KVH Industries, Inc.  
50 Enterprise Center  
Office Park  
Middletown RI 028400000 USA

**COVERAGES**

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CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
	<b>GENERAL LIABILITY</b> <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR <input type="checkbox"/> OWNER'S & CONTRACTOR'S PROT <input type="checkbox"/> <input type="checkbox"/>				GENERAL AGGREGATE PRODUCTS - COMP/OP AGG PERSONAL & ADV INJURY EACH OCCURRENCE FIRE DAMAGE (Any one fire) MED EXP (Any one person)
	<b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS <input type="checkbox"/> <input type="checkbox"/>				COMBINED SINGLE LIMIT  BODILY INJURY (Per person) BODILY INJURY (Per accident)  PROPERTY DAMAGE
	<b>GARAGE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> <input type="checkbox"/>				AUTO ONLY - EA ACCIDENT OTHER THAN AUTO ONLY:  EACH ACCIDENT AGGREGATE
	<b>EXCESS LIABILITY</b> <input type="checkbox"/> UMBRELLA FORM <input type="checkbox"/> OTHER THAN UMBRELLA FORM				EACH OCCURRENCE AGGREGATE
A	<b>WORKER'S COMPENSATION AND EMPLOYERS' LIABILITY</b>  THE PROPRIETOR/ PARTNERS/EXECUTIVE <input type="checkbox"/> INCL OFFICERS ARE: <input type="checkbox"/> EXCL	WC5 - 345 - 371678 - 014 Workers Compensation MI	05/08/04	05/08/05	<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER EL EACH ACCIDENT \$ 500,000 EL DISEASE-POLICY LIMIT \$ 500,000 EL DISEASE-EA EMPLOYEE \$ 500,000

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS  
Workers Compensation for the state of Michigan

**CERTIFICATE HOLDER**

DIRECTV  
2230 EAST IMPERIAL HIGHWAY  
EL SEGUNDO CA 90245 USA

**CANCELLATION**

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

**AUTHORIZED REPRESENTATIVE**

ACORD 25-S (1/95)

© ACORD CORPORATION 1988

Certificate No: 570009906892

Holder Identifier:

**PRODUCER**

Aon Risk Services, Inc. of Rhode Island  
50 Kennedy Plaza  
10th Floor  
Providence RI 02903-2393

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**COMPANIES AFFORDING COVERAGE**

- COMPANY A Beacon Mutual Ins Co
- COMPANY B
- COMPANY C
- COMPANY D

PHONE - (866) 266-7475 FAX - (866) 467-7847

**INSURED**

KVH Industries, Inc.  
50 Enterprise Center  
office Park  
Middletown RI 028400000 USA

**COVERAGES**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
	<b>GENERAL LIABILITY</b> <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR <input type="checkbox"/> OWNER'S & CONTRACTOR'S PROT <input type="checkbox"/> _____ <input type="checkbox"/> _____				GENERAL AGGREGATE PRODUCTS - COMP/OP AGG PERSONAL & ADV INJURY EACH OCCURRENCE FIRE DAMAGE (Any one fire) MED EXP (Any one person)
	<b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS <input type="checkbox"/> _____ <input type="checkbox"/> _____				COMBINED SINGLE LIMIT  BODILY INJURY (Per person) BODILY INJURY (Per accident)  PROPERTY DAMAGE
	<b>GARAGE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> _____ <input type="checkbox"/> _____				AUTO ONLY - EA ACCIDENT OTHER THAN AUTO ONLY: <span style="float: right;">EACH ACCIDENT AGGREGATE</span>
	<b>EXCESS LIABILITY</b> <input type="checkbox"/> UMBRELLA FORM <input type="checkbox"/> OTHER THAN UMBRELLA FORM				EACH OCCURRENCE AGGREGATE
A	<b>WORKER'S COMPENSATION AND EMPLOYERS' LIABILITY</b>  THE PROPRIETOR/ PARTNERS/EXECUTIVE <input type="checkbox"/> INCL OFFICERS ARE: <input type="checkbox"/> EXCL	4595 WORKERS COMPENSATION - RI	05/10/04	05/10/05	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER EL EACH ACCIDENT \$ 500,000  EL DISEASE-POLICY LIMIT \$ 500,000  EL DISEASE-EA EMPLOYEE \$ 500,000

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS  
Workers Compensation for the State of Rhode Island

**CERTIFICATE HOLDER**

DIRECTV  
2230 EAST IMPERIAL HIGHWAY  
EL SEGUNDO CA 90245 USA

**CANCELLATION**

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

**AUTHORIZED REPRESENTATIVE**

*Aon Risk Services, Inc. of RI*

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

I, Martin A. Kits van Heyningen, President and Chief Executive Officer of KVH, Industries, Inc., certify that:

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

Date: August 6, 2004

/s/ Martin A. Kits van Heyningen

\_\_\_\_\_  
Martin A. Kits van Heyningen  
Chief Executive Officer

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

I, Patrick J. Spratt, Chief Financial Officer of KVH Industries, Inc., certify that:

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

Date: August 6, 2004

/s/ Patrick J. Spratt  
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Patrick J. Spratt  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned president and chief executive officer certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Martin A. Kits van Heyningen  
President & Chief Executive Officer

Date: August 6, 2004

**CERTIFICATION PURSUANT TO  
18 U.S.C. § 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned chief financial officer of the Company, certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Patrick J. Spratt

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Chief Accounting & Financial Officer

Date: August 6, 2004