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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **June 30, 2010**

OR

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

For the transition period from _____ to _____

Commission File Number **0-28082**

KVH Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

05-0420589
(I.R.S. Employer
Identification Number)

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

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

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

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

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

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

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

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

Date	Class	Outstanding shares
August 3, 2010	Common Stock, par value \$0.01 per share	14,450,937

KVH INDUSTRIES, INC. AND SUBSIDIARIES

**Form 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,031	\$ 5,871
Marketable securities	38,518	35,433
Accounts receivable, net of allowance for doubtful accounts of approximately \$570 as of June 30, 2010 and \$844 as of December 31, 2009	18,263	15,803
Inventories	14,196	13,387
Prepaid expenses and other assets	1,534	1,602
Costs and estimated earnings in excess of billings on uncompleted contracts	13	13
Deferred income taxes	1,471	17
Total current assets	<u>81,026</u>	<u>72,126</u>
Property and equipment, less accumulated depreciation of \$23,228 as of June 30, 2010 and \$21,503 as of December 31, 2009	17,760	15,777
Other non-current assets	6,247	6,509
Deferred income taxes	5,862	3,334
Total assets	<u>\$110,895</u>	<u>\$ 97,746</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,261	\$ 3,611
Accrued compensation and employee-related expenses	4,000	3,577
Accrued other	2,817	1,667
Accrued product warranty costs	1,216	1,084
Accrued professional services	390	419
Deferred revenue	1,003	961
Current portion of long-term debt	121	117
Total current liabilities	<u>14,808</u>	<u>11,436</u>
Other long-term liabilities	822	902
Long-term debt excluding current portion	3,747	3,808
Total liabilities	<u>19,377</u>	<u>16,146</u>
Commitments and contingencies (notes 3 and 10)		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; none issued	—	—
Common stock, \$0.01 par value. Authorized 30,000,000 shares, 15,613,789 and 15,355,602 shares issued at June 30, 2010 and December 31, 2009; 14,412,465 and 14,154,278 shares outstanding at June 30, 2010 and December 31, 2009, respectively	156	154
Additional paid-in capital	99,148	96,274
Accumulated earnings (deficit)	1,985	(5,406)
Accumulated other comprehensive (loss) income	(300)	49
Less: treasury stock at cost, common stock, 1,201,324 shares as of June 30, 2010 and December 31, 2009	(9,471)	(9,471)
Total stockholders' equity	<u>91,518</u>	<u>81,600</u>
Total liabilities and stockholders' equity	<u>\$110,895</u>	<u>\$ 97,746</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Sales:				
Product	\$24,379	\$18,129	\$48,412	\$33,693
Service	5,118	3,727	9,067	6,438
Net sales	<u>29,497</u>	<u>21,856</u>	<u>57,479</u>	<u>40,131</u>
Costs and expenses:				
Costs of product sales	13,688	11,389	26,809	22,479
Costs of service sales	4,314	2,688	7,371	4,375
Sales, marketing and support	4,738	3,971	9,236	8,130
Research and development	2,500	1,858	5,083	3,973
General and administrative	2,316	1,853	4,681	3,780
Total costs and expenses	<u>27,556</u>	<u>21,759</u>	<u>53,180</u>	<u>42,737</u>
Income (loss) from operations	1,941	97	4,299	(2,606)
Interest income	92	93	183	205
Interest expense	59	25	82	37
Other income, net	32	10	63	8
Income (loss) before income taxes	2,006	175	4,463	(2,430)
Income tax benefit	3,318	16	2,927	64
Net income (loss)	<u>\$ 5,324</u>	<u>\$ 191</u>	<u>\$ 7,390</u>	<u>\$ (2,366)</u>
Per share information:				
Net income (loss) per share				
Basic	<u>\$ 0.37</u>	<u>\$ 0.01</u>	<u>\$ 0.52</u>	<u>\$ (0.17)</u>
Diluted	<u>\$ 0.36</u>	<u>\$ 0.01</u>	<u>\$ 0.50</u>	<u>\$ (0.17)</u>
Number of shares used in per share calculation:				
Basic	<u>14,373</u>	<u>13,956</u>	<u>14,298</u>	<u>13,982</u>
Diluted	<u>14,770</u>	<u>14,113</u>	<u>14,738</u>	<u>13,982</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six months ended	
	June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 7,390	\$ (2,366)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	1,746	1,215
Compensation expense related to awards and employee stock purchase plan	1,121	797
Provision for doubtful accounts	76	409
Deferred income taxes	(3,982)	—
Changes in operating assets and liabilities:		
Accounts receivable	(2,536)	784
Costs and estimated earnings in excess of billings on uncompleted contracts	—	(34)
Inventories	(809)	2,913
Prepaid expenses and other assets	68	(777)
Other non-current assets	262	(1,381)
Accounts payable	1,650	(2,341)
Accrued expenses	1,365	229
Deferred revenue	42	699
Other long-term liabilities	(80)	82
Net cash provided by operating activities	6,313	229
Cash flows from investing activities:		
Capital expenditures	(3,729)	(2,057)
Proceeds from sale of property and equipment	—	18
Purchases of marketable securities	(13,805)	(13,820)
Maturities and sales of marketable securities	10,684	14,119
Net cash used in investing activities	(6,850)	(1,740)
Cash flows from financing activities:		
Payment of employee restricted stock withholdings	(482)	(47)
Proceeds from stock options exercised and employee stock purchase plan	2,236	115
Repurchase of common stock	—	(601)
Repayments of mortgage loan	(57)	(2,045)
Borrowings from mortgage loan	—	4,000
Net cash provided by financing activities	1,697	1,422
Net change in cash and cash equivalents	1,160	(89)
Cash and cash equivalents at beginning of period	5,871	4,979
Cash and cash equivalents at end of period	\$ 7,031	\$ 4,890

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements
(Unaudited, all amounts in thousands except share and per share amounts)**

(1) Description of Business

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

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

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

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

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

(2) Basis of Presentation

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

(3) Significant Estimates and Assumptions

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

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

KVH INDUSTRIES, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements—(Continued)**
(Unaudited, all amounts in thousands except share and per share amounts)**(4) Stock-Based Compensation**

The Company recognizes stock-based compensation in accordance with the provisions of Accounting Standards Codification (ASC) 718, *Compensation-Stock Based Compensation*. Stock-based compensation expense was \$553 and \$408 for the three months ended June 30, 2010 and June 30, 2009, respectively and \$1,121 and \$797 for the six months ended June 30, 2010 and June 30, 2009, respectively. As of June 30, 2010, there was \$437 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 1.72 years. As of June 30, 2010, there was \$3,565 of total unrecognized compensation expense related to restricted stock awards, which is expected to be recognized over a weighted-average period of 2.81 years.

The Company granted zero and 175,000 restricted stock awards to employees under the terms of the Amended and Restated 2006 Stock Incentive Plan during the three and six months ended June 30, 2010, respectively. The restricted stock awards vest ratably over four years from the date of grant subject to the recipient remaining employed through the applicable vesting dates. Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market closing price of the Company's common stock. Such value is recognized as expense over the vesting period of the award, net of estimated forfeitures.

(5) Net Income (Loss) per Common Share

Basic net income (loss) per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share incorporates the dilutive effect of common stock equivalent options, warrants and other convertible securities, if any, as determined with the treasury stock accounting method. Common stock equivalents related to options for 15,850 shares of common stock for the three and six months ended June 30, 2010, respectively have been excluded from the fully diluted calculation of net income per share, as inclusion would be anti-dilutive.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Weighted average common shares outstanding – basic	14,373,414	13,955,730	14,298,305	13,981,881
Dilutive common shares issuable in connection with stock plans	396,767	157,659	439,730	—
Weighted average common shares outstanding – diluted	<u>14,770,181</u>	<u>14,113,389</u>	<u>14,738,035</u>	<u>13,981,881</u>

(6) Inventories

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

	June 30, 2010	December 31, 2009
Raw materials	\$ 9,640	\$ 9,121
Work in process	1,426	1,118
Finished goods	3,130	3,148
	<u>\$14,196</u>	<u>\$ 13,387</u>

(7) Comprehensive Income (Loss)

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 5,324	\$ 191	\$7,390	\$(2,366)
Unrealized gain (loss) on available-for-sale securities	3	(6)	(37)	(61)
Unrealized loss on derivatives	(313)	—	(313)	—
Total comprehensive income (loss)	<u>\$ 5,014</u>	<u>\$ 185</u>	<u>\$7,040</u>	<u>\$(2,427)</u>

KVH INDUSTRIES, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited, all amounts in thousands except share and per share amounts)****(8) Product Warranty**

The Company's products carry limited warranties that range from one to three years and vary by product. The warranty period begins on the date of retail purchase by the original purchaser. The Company accrues estimated product warranty costs at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty repairs and the estimated cost per repair. Warranty and related costs are reflected within sales, marketing and support in the accompanying statements of operations. As of June 30, 2010 and December 31, 2009, the Company had accrued product warranty costs of \$1,216 and \$1,084, respectively. The following table summarizes product warranty activity for the six-month periods presented:

	Six months ended June 30,	
	2010	2009
Beginning balance	\$1,084	\$1,139
Charges to expense	504	291
Costs incurred	(372)	(328)
Ending balance	<u>\$1,216</u>	<u>\$1,102</u>

(9) Segment Reporting

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

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

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

Three months ended June 30, 2010	Sales Originating From				Total
	North America	Europe	Asia	South America	
Mobile communication sales to the United States	\$ 12,595	\$ —	\$ —	\$ —	\$12,595
Mobile communication sales to Canada	134	—	—	—	134
Mobile communication sales to Europe	213	2,505	—	—	2,718
Mobile communication sales to other geographic areas	105	1,106	—	—	1,211
Guidance and stabilization sales to the United States	5,108	—	—	—	5,108
Guidance and stabilization sales to Canada	1,200	—	—	—	1,200
Guidance and stabilization sales to Europe	6,047	—	—	—	6,047

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

	Sales Originating From				Total
	North America	Europe	Asia	South America	
Guidance and stabilization sales to other geographic areas	484	—	—	—	484
Intercompany sales	2,044	58	—	—	2,102
Subtotal	27,930	3,669	—	—	31,599
Eliminations	(2,044)	(58)	—	—	(2,102)
Net sales	\$ 25,886	\$ 3,611	\$ —	\$ —	\$ 29,497
Segment net income	\$ 5,234	\$ 90	\$ —	\$ —	\$ 5,324
Depreciation	\$ 912	\$ 8	\$ —	\$ —	\$ 920
Total assets	\$ 103,878	\$ 7,017	\$ —	\$ —	\$ 110,895

<u>Three months ended June 30, 2009</u>	Sales Originating From			Total
	North America	Europe	Asia	
Mobile communication sales to the United States	\$ 8,430	\$ —	—	\$ 8,430
Mobile communication sales to Canada	45	—	—	45
Mobile communication sales to Europe	357	2,669	—	3,026
Mobile communication sales to other geographic areas	106	923	—	1,029
Guidance and stabilization sales to the United States	4,597	—	—	4,597
Guidance and stabilization sales to Canada	1,064	—	—	1,064
Guidance and stabilization sales to Europe	3,214	—	—	3,214
Guidance and stabilization sales to other geographic areas	451	—	—	451
Intercompany sales	1,770	—	—	1,770
Subtotal	20,034	3,592	—	23,626
Eliminations	(1,770)	—	—	(1,770)
Net sales	\$ 18,264	\$ 3,592	\$ —	\$ 21,856
Segment net (loss) income	\$ (157)	\$ 348	\$ —	\$ 191
Depreciation	\$ 617	\$ 8	\$ —	\$ 625
Total assets	\$ 88,225	\$ 5,270	\$ —	\$ 93,495

<u>Six months ended June 30, 2010</u>	Sales Originating From				Total
	North America	Europe	Asia	South America	
Mobile communication sales to the United States	\$ 24,078	\$ —	\$ —	\$ —	\$ 24,078
Mobile communication sales to Canada	370	—	—	—	370
Mobile communication sales to Europe	348	5,350	—	—	5,698
Mobile communication sales to other geographic areas	349	2,224	—	—	2,573
Guidance and stabilization sales to the United States	9,922	—	—	—	9,922
Guidance and stabilization sales to Canada	2,124	—	—	—	2,124
Guidance and stabilization sales to Europe	11,321	—	—	—	11,321
Guidance and stabilization sales to other geographic areas	1,393	—	—	—	1,393
Intercompany sales	4,296	122	—	—	4,418
Subtotal	54,201	7,696	—	—	61,897
Eliminations	(4,296)	(122)	—	—	(4,418)
Net sales	\$ 49,905	\$ 7,574	\$ —	\$ —	\$ 57,479
Segment net income	\$ 7,108	\$ 282	\$ —	\$ —	\$ 7,390
Depreciation	\$ 1,730	\$ 16	\$ —	\$ —	\$ 1,746
Total assets	\$ 103,878	\$ 7,017	\$ —	\$ —	\$ 110,895

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

Six months ended June 30, 2009	Sales Originating From		
	North America	Europe	Total
Mobile communication sales to the United States	\$ 15,574	\$ —	\$15,574
Mobile communication sales to Canada	258	—	258
Mobile communication sales to Europe	977	4,823	5,800
Mobile communication sales to other geographic areas	271	1,675	1,946
Guidance and stabilization sales to the United States	7,527	—	7,527
Guidance and stabilization sales to Canada	1,431	—	1,431
Guidance and stabilization sales to Europe	6,060	—	6,060
Guidance and stabilization sales to other geographic areas	1,535	—	1,535
Intercompany sales	3,290	—	3,290
Subtotal	36,923	6,498	43,421
Eliminations	(3,290)	—	(3,290)
Net sales	\$ 33,633	\$ 6,498	\$40,131
Segment net (loss) income	\$ (2,867)	\$ 501	\$ (2,366)
Depreciation	\$ 1,199	\$ 16	\$ 1,215
Total assets	\$ 88,225	\$ 5,270	\$93,495

(10) Legal Matters

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

KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited, all amounts in thousands except share and per share amounts)

(11) Share Buyback Program

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

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

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

On February 18, 2008, the Company entered into a \$20,055 long-term antenna development and production agreement (the "Agreement") that was subsequently increased in 2009 to \$20,896. Under the terms of the Agreement, the Company designs, develops, and manufactures DIRECTV-compatible satellite television antennas for use on narrowbody commercial aircraft operating in the United States. The Company began shipment of the antennas in the second quarter of 2009. As of June 30, 2010, the Company has incurred \$4,669 in research and development costs related to this arrangement. In accordance with ASC 730, *Research and Development*, and the Agreement, these costs are capitalized as they are incurred and then expensed into costs of product sales as antennas are sold in proportion to the number of antennas delivered versus the total contractual antenna production requirement. The Company expensed \$327 and \$994 of aviation antenna research and development costs into costs of product sales during the three and six months ended June 30, 2010, respectively. The net amount of \$2,875 in remaining capitalized research and development costs are costs that the Company has a contractual right to recover, and are reflected in other non-current assets as of June 30, 2010.

(13) Fair Value Measurements

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

- Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company's Level 1 assets are investments in money market mutual funds, government agency bonds, government agency discount notes, corporate notes, United States treasuries and certificates of deposit.
- Level 2:** Quoted prices for similar assets or liabilities in active markets; or observable prices that are based on observable market data, based on directly or indirectly market-corroborated inputs. The Company's Level 2 liabilities are interest rate swaps.

KVH INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited, all amounts in thousands except share and per share amounts)

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

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

- (a) Market approach—prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities
- (b) Cost approach—amount that would be required to replace the service capacity of an asset (replacement cost)
- (c) Income approach—techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models)
- (d) The valuations of the interest rate swaps intended to mitigate the Company’s interest rate risk are determined with the assistance of a third party financial institution using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each instrument. This analysis utilizes observable market-based inputs, including interest rate curves and interest rate volatility, and reflects the contractual terms of these instruments, including the period to maturity.

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

June 30, 2010	Total	Level 1	Level 2	Level 3	Valuation Technique
Assets					
Money market mutual funds	\$17,453	\$17,453	\$ —	\$ —	(a)
Government agency bonds	13,059	13,059	—	—	(a)
United States treasuries	2,038	2,038	—	—	(a)
Certificates of deposit	2,078	2,078	—	—	(a)
Government agency discount notes	2,000	2,000	—	—	(a)
Corporate notes	1,890	1,890	—	—	(a)
Liabilities					
Interest rate swaps	\$ 313	\$ —	\$ 313	\$ —	(d)

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

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

(14) Business and Credit Concentrations

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

	Three months ended		Six months ended	
	June 30		June 30	
	2010	2009	2010	2009
Net sales to foreign customers outside the U.S. and Canada	35.5%	35.3%	36.5%	38.2%
Net sales to Customer A	19.2%	13.2%	18.1%	13.3%

Net sales to a single customer (Customer A) accounted for approximately 19.2% and 13.2% of the Company’s net sales for the three months ended June 30, 2010 and 2009, respectively and 18.1% and 13.3% of the Company’s net sales for the six months ended June 30, 2010 and 2009, respectively. In addition, net sales to a subcontractor to Customer A accounted for approximately 5.4% and 7.4% of the Company’s net sales for the three months ended June 30, 2010 and 2009, respectively and 6.7% and 7.7% of the

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

Company's net sales for the six months ended June 30, 2010 and 2009, respectively. The terms and conditions of sales to Customer A and the subcontractor to Customer A are consistent with the Company's standard terms and conditions of product sales. Customer A and the subcontractor to Customer A are current with all outstanding receivable balances.

(15) Derivative Instruments and Hedging Activities

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

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

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

<u>Interest Rate Derivatives</u>	<u>Notional (in thousands)</u>	<u>Asset (Liability)</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Index</u>	<u>Strike Rate</u>
Interest rate swap	\$ 1,933	(145)	April 1, 2010	April 1, 2019	1-month LIBOR	5.91%
Interest rate swap	\$ 1,933	(168)	April 1, 2010	April 1, 2019	1-month LIBOR	6.07%

(16) Income Tax Benefit

During the second quarter of 2010, based upon an evaluation of the positive and negative evidence, the Company concluded that \$4.0 million of the deferred tax asset valuation allowance was no longer required, resulting in a remaining valuation allowance requirement of \$2.3 million as of June 30, 2010. As part of the Company's analysis, it evaluated, among other factors, its recent history of generating taxable income and its near-term forecasts of future taxable income and determined that it is more likely than not that it will be able to realize an additional \$4.0 million of its deferred tax assets over the next several years. After considering these factors, the Company concluded that a reversal of the valuation allowance was appropriate.

(17) Subsequent Event

On August 4, 2010, the Company entered into a purchase and sale agreement to purchase a facility located in Tinley Park, Illinois, which had previously been leased by the Company, for approximately \$4.3 million. The property will be purchased using existing cash, cash equivalents and marketable securities.

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

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

Overview

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

Our mobile satellite business includes receive-only TracVision satellite TV systems, 2-way TracPhone satellite communications systems, and the mini-VSAT Broadband airtime service. Our TracVision mobile satellite TV systems enable mobile reception in vessels or vehicles of most leading satellite TV services, such as DIRECTV, DISH Network, and Bell TV in North America, and

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(in thousands)			
Mobile communications	\$16,658	\$12,530	\$32,719	\$23,578
Guidance and stabilization	12,839	9,326	24,760	16,553
Sales	<u>\$29,497</u>	<u>\$21,856</u>	<u>\$57,479</u>	<u>\$40,131</u>

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

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

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

Critical Accounting Policies and Significant Estimates

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

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

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

Income Taxes and Deferred Income Tax Assets and Liabilities

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

In assessing the realizability of our deferred tax assets, we considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. During the second quarter of 2010, based upon an evaluation of the positive and negative evidence, we concluded that \$4.0 million of the deferred tax asset valuation allowance was no longer required, resulting in a remaining valuation allowance requirement of \$2.3 million as of June 30, 2010. As part of our analysis, we evaluated, among other factors, our recent history of generating taxable income and our near-term forecasts of future taxable income and determined that it is more likely than not that we will be able to realize an additional \$4.0 million of our deferred tax assets over the next several years. After considering these factors, we concluded that a reversal of the valuation allowance was appropriate.

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Sales:				
Product	82.6%	82.9%	84.2%	84.0%
Service	17.4	17.1	15.8	16.0
Net sales	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Cost and expenses:				
Costs of product sales	46.4	52.1	46.7	56.0
Costs of service sales	14.6	12.3	12.8	10.9
Sales, marketing and support	16.0	18.2	16.1	20.3
Research and development	8.5	8.5	8.8	9.9
General and administrative	7.9	8.5	8.1	9.4
Total costs and expenses	<u>93.4</u>	<u>99.6</u>	<u>92.5</u>	<u>106.5</u>
Income (loss) from operations	6.6	0.4	7.5	(6.5)
Interest income	0.3	0.4	0.3	0.5
Interest expense	0.2	0.0	0.1	0.1
Other income, net	0.1	0.0	0.1	0.0
Income (loss) before income taxes	<u>6.8</u>	<u>0.8</u>	<u>7.8</u>	<u>(6.1)</u>
Income tax benefit	<u>11.2</u>	<u>0.1</u>	<u>5.1</u>	<u>0.2</u>
Net income (loss)	<u>18.0%</u>	<u>0.9%</u>	<u>12.9%</u>	<u>(5.9)%</u>

Three Months Ended June 30, 2010 and 2009

Net Sales

Product sales for the three months ended June 30, 2010 increased \$6.3 million, or 34%, to \$24.4 million from \$18.1 million for the three months ended June 30, 2009. The primary reason for the increase was a \$3.4 million, or 38%, increase in sales of our guidance and stabilization products. Specifically, sales of our FOG products increased \$3.5 million, or 49%, driven largely by increased sales in support of remotely operated weapons station programs. Although our expectation is that FOG product sales will continue to increase in support of various customer programs, including remotely operated weapons stations, we do not expect such a level of growth rate to continue.

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Mobile communication product sales for the three months ended June 30, 2010 increased \$2.8 million, or 31%, to \$12.1 million from \$9.2 million for the three months ended June 30, 2009. A key reason for the increase was a \$1.4 million increase in sales of our DIRECTV-compatible satellite television antenna used on narrowbody commercial aircraft. We began shipping this antenna to LiveTV in the second quarter of 2009. Our agreement with LiveTV does not provide for any further shipments during the second half of 2010. Also contributing to the increase in mobile communication product sales was an increase in sales of our marine products of \$1.1 million, or 13%, compared with three months ended June 30, 2009, driven primarily by demand for our TracPhone V7 product and, to a lesser extent, sales of the TracVision HD7 satellite television product that we launched in the fourth quarter of 2009. In addition, sales of our land mobile products increased \$0.4 million, or 34%, compared to the three months ended June 30, 2009, driven primarily by increased sales to original equipment manufacturers in the recreational vehicle market. Mobile communications product sales originating from our Danish subsidiary remained consistent with those at June 30, 2009, decreasing by 1%. Mobile communications product sales originating from North America increased \$2.9 million, or 51%, from the three months ended June 30, 2009 to the three months ended June 30, 2010. We do not expect this rate of growth to continue into the third quarter of 2010.

Service sales for the three months ended June 30, 2010 increased \$1.4 million, or 37%, to \$5.1 million from \$3.7 million for the three months ended June 30, 2009. The primary reason for the increase was a \$1.4 million increase in airtime sales for our mini-VSAT Broadband service that we launched in the fourth quarter of 2007, and a \$0.3 million increase in contracted engineering services primarily related to a FOG product. Partially offsetting this increase was a decline in service repair sales of \$0.3 million. The decrease in service repair sales was driven primarily by a reduction in repair service for navigation products for military vehicles.

Cost of Sales

For the three months ended June 30, 2010, costs of product sales increased by \$2.3 million, or 20%, to \$13.7 million for the three months ended June 30, 2010 from \$11.4 million for the three months ended June 30, 2009. The primary reason for the increase was the increase in unit sales of FOG products. Also contributing to the increase was an increase in unit sales of our DIRECTV-compatible satellite television antenna used on narrowbody commercial aircraft, and to a lesser extent, an increase in unit sales of marine and land mobile communication products. Partially offsetting this increase was a \$0.6 million decrease in our inventory reserve costs from the second quarter of 2009 to the second quarter of 2010.

Costs of service sales increased by \$1.6 million, or 60%, to \$4.3 million for the three months ended June 30, 2010 from \$2.7 million for the three months ended June 30, 2009. The primary reason for the increase was a \$1.2 million increase in airtime costs of sales for our mini-VSAT Broadband service that we launched in the fourth quarter of 2007. Also contributing to the increase was an increase in our contracted engineering services costs of sales of approximately \$0.4 million related to a FOG product.

Gross margin from product sales for the three months ended June 30, 2010 increased to 44% from 37% in the year-ago period. The primary reason for the increase in gross margin was a 38% increase in our relatively higher margin guidance and stabilization product sales and a 31% increase in our mobile communication product sales, resulting in improved utilization of production capacity for fiber optic gyros and mobile communication products for the three months ended June 30, 2010. Also contributing to the gross margin improvement was a \$0.6 million decrease in our inventory reserve costs.

Gross margin from service sales for the three months ended June 30, 2010 decreased to 16% from 28% in the year-ago period, primarily as a result of increased costs related to the build out and operations of the network and support infrastructure for our mini-VSAT Broadband service. Over the next several months, as we complete the next phase of the network build-out, we expect service margins to stabilize and show improvement as we increase the number of subscribers and associated airtime service revenue. However, service margins will continue to be under pressure throughout 2010, potentially showing some variability quarter to quarter due to changes in mix of type of service.

Operating Expenses

Sales, marketing and support expense for the three months ended June 30, 2010 increased by \$0.8 million, or 19%, to \$4.7 million from \$4.0 million for the three months ended June 30, 2009. The primary reason for the increase in 2010 was a \$0.4 million increase in employee compensation for sales, marketing and support, primarily in connection with the global expansion of our mini-VSAT Broadband satellite communication service. Also contributing to the increase was a \$0.2 million increase in sales representative commissions primarily due to the increase in airtime sales for our mini-VSAT Broadband service and marine mobile communications product sales during the quarter and a \$0.2 million increase in facility expenditures allocated to the sales and marketing department. As a percentage of sales, sales, marketing and support expense decreased during the quarter ended June 30, 2010 to 16% from 18% for the quarter ended June 30, 2009, due primarily to the increase in overall product and service sales discussed above.

Research and development expense for the three months ended June 30, 2010 increased by \$0.6 million, or 35%, to \$2.5 million from \$1.9 million for the three months ended June 30, 2009. All research and development costs are expensed as incurred, excluding certain of the aviation antenna development costs related to the development project for LiveTV, which are capitalized, as we have a contractual right to recover such costs (see note 12 to the condensed consolidated financial statements). The primary reason for the

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increase in 2010 expense was the core completion of the development project for the DIRECTV-compatible satellite television antenna to be used on narrowbody commercial aircraft. The project was substantially complete in the second quarter of 2009 and resulted in a \$0.4 million decrease in the capitalization of aviation antenna development costs during the second quarter of 2010 versus the second quarter of 2009 and a corresponding increase in research and development expense. As a percentage of sales, research and development expense remained consistent at 9% during both the quarter ended June 30, 2010 and the quarter ended June 30, 2009.

General and administrative expense for the three months ended June 30, 2010 increased by \$0.5 million, or 25%, to \$2.3 million from \$1.9 million for the three months ended June 30, 2009. The primary reason for the increase in 2010 expense was a \$0.3 million increase in general and administrative related employee compensation, primarily as a result of an increase in general and administrative staffing as well as an increase in accrued performance based incentive compensation and stock compensation expense. Also contributing to the increase was a \$0.1 million increase in legal and consulting fees associated with satellite capacity and licensing arrangements in connection with the global expansion of our mini-VSAT Broadband satellite communication service. As a percentage of sales, general and administrative expense decreased during the quarter ended June 30, 2010 to 8% from 9% for the quarter ended June 30, 2009, due primarily to the increase in overall product and service sales discussed above.

Interest Income and Other Income

Interest income and other income for the three months ended June 30, 2010 was \$0.1 million, which was consistent with interest income and other income for the three months ended June 30, 2009.

Income Tax Benefit

Income tax benefit for the three months ended June 30, 2010 increased by \$3.3 million to \$3.3 million from \$0.0 million for the three months ended June 30, 2009. The primary reason for the increase in 2010 was a tax benefit in the amount of \$4.0 million recognized as a result of the reversal of a substantial portion of the U.S. deferred tax asset valuation allowance during the second quarter of 2010. During the second quarter of 2010, based upon an evaluation of the positive and negative evidence, we concluded that \$4.0 million of the deferred tax asset valuation allowance was no longer required, resulting in a remaining valuation allowance requirement of \$2.3 million as of June 30, 2010. As part of our analysis, we evaluated, among other factors, our recent history of generating taxable income and our near-term forecasts of future taxable income and determined that it is more likely than not that we will be able to realize an additional \$4.0 million of our deferred tax assets over the next several years. After considering these factors, we concluded that a reversal of the valuation allowance was appropriate. Partially offsetting the income tax benefit was a \$1.8 million increase in pre-tax income.

Six Months Ended June 30, 2010 and 2009

Net Sales

Product sales for the six months ended June 30, 2010 increased \$14.7 million, or 44%, to \$48.4 million from \$33.7 million for the six months ended June 30, 2009. The primary reason for the increase was an \$8.1 million, or 52%, increase in sales of our guidance and stabilization products. Specifically, sales of our FOG products increased \$8.0 million, or 67%, driven largely by increased sales in support of remotely operated weapons station programs.

Mobile communication product sales for the six months ended June 30, 2010 increased \$6.6 million, or 37%, to \$24.7 million from \$18.1 million for the six months ended June 30, 2009. The primary reason for the increase was a \$4.4 million increase in sales of our DIRECTV-compatible satellite television antenna used on narrowbody commercial aircraft. We began shipping this antenna to LiveTV in the second quarter of 2009. Also contributing to the increase in mobile communication product sales was an increase in sales of our marine products of \$1.6 million, or 10%, compared with six months ended June 30, 2009, driven primarily by demand for our TracPhone V7 product and our TracVision HD7 satellite television product that we launched in the fourth quarter of 2009. In addition, sales of our land mobile products increased \$0.7 million, or 32%, compared to the six months ended June 30, 2009, driven primarily by increased sales to original equipment manufacturers in the recreational vehicle market. Mobile communications product sales originating from our Danish subsidiary increased \$1.0 million, or 16%, from the six months ended June 30, 2009. Mobile communications product sales originating from North America increased \$5.6 million, or 48%, from the six months ended June 30, 2009 to the six months ended June 30, 2010.

Service sales for the six months ended June 30, 2010 increased \$2.6 million, or 41%, to \$9.1 million from \$6.4 million for the six months ended June 30, 2009. The primary reason for the increase was a \$3.0 million increase in airtime sales for our mini-VSAT Broadband service. Also contributing to the increase was an increase in contracted engineering revenue of \$0.4 million primarily related to a FOG product. Offsetting this increase was a decline of \$0.7 million in service repair sales and Inmarsat airtime sales.

Cost of Sales

For the six months ended June 30, 2010, costs of product sales increased by \$4.3 million, or 19%, to \$26.8 million for the six months ended June 30, 2010 from \$22.5 million for the six months ended June 30, 2009. The primary reason for the increase was the increase in unit sales of FOG products. Also contributing to the increase was an increase in unit sales of our DIRECTV-compatible satellite television antenna used on narrowbody commercial aircraft, and to a lesser extent, an increase in unit sales of marine and land mobile communication products. Partially offsetting this increase was a \$1.0 million decrease in our inventory reserve costs.

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Costs of service sales increased by \$3.0 million, or 68%, to \$7.4 million for the six months ended June 30, 2010 from \$4.4 million for the six months ended June 30, 2009. The primary reason for the increase was a \$2.5 million increase in airtime costs of sales for our mini-VSAT Broadband service. Also contributing to the increase was an increase in our contracted engineering services costs of sales of approximately \$0.5 million primarily related to a FOG product.

Gross margin from product sales for the six months ended June 30, 2010 increased to 45% from 33% in the year-ago period. The primary reason for the increase in gross margin was a 52% increase in our relatively higher margin guidance and stabilization product sales and a 37% increase in our mobile communication product sales, resulting in improved utilization of production capacity for fiber optic gyros and mobile communication products for the six months ended June 30, 2010. Also contributing to the gross margin improvement was a \$1.0 million decrease in our inventory reserve costs.

Gross margin from service sales for the six months ended June 30, 2010 decreased to 19% from 32% in the year-ago period as a result of increased costs related to the build out and operations of the network and support infrastructure for our mini-VSAT Broadband service.

Operating Expenses

Sales, marketing and support expense for the six months ended June 30, 2010 increased by \$1.1 million, or 14%, to \$9.2 million from \$8.1 million for the six months ended June 30, 2009. The primary reason for the increase in 2010 was a \$0.6 million increase in employee compensation for sales, marketing and support, primarily in connection with the global expansion of our mini-VSAT Broadband satellite communication service. Also contributing to the increase was a \$0.3 million increase in sales representative commissions due to the increase in airtime sales for our mini-VSAT Broadband service and marine mobile communications product sales during the first six months of 2010, as well as an increase in warranty expense of \$0.2 million and a \$0.2 million increase in facility expenditures allocated to the sales and marketing department. Partially offsetting the increase was a \$0.4 million decrease in bad debt expense. As a percentage of sales, year-to-date sales, marketing and support expense decreased to 16% in 2010 from 20% in 2009, due primarily to the increase in product sales discussed above.

Research and development expense for the six months ended June 30, 2010 increased by \$1.1 million, or 28% to \$5.1 million from \$4.0 million for the six months ended June 30, 2009. All research and development costs are expensed as incurred, excluding the aviation antenna development costs related to the development project for LiveTV, which are capitalized, as we have a contractual right to recover such costs (see note 12 to the condensed consolidated financial statements). The primary reason for the increase in 2010 expense was the core completion of the development project for the DIRECTV-compatible satellite television antenna to be used on narrowbody commercial aircraft. The project was substantially complete in the second quarter of 2009 and resulted in a \$1.0 million decrease in the capitalization of aviation antenna development costs during the first six months of 2010 versus the first six months of 2009 and a corresponding increase in research and development expense. As a percentage of sales, year-to-date research and development expense decreased to 9% in 2010 from 10% in 2009 due primarily to the increase in sales discussed above.

General and administrative expense for the six months ended June 30, 2010 increased by \$0.9 million, or 24%, to \$4.7 million from \$3.8 million for the six months ended June 30, 2009. The primary reason for the increase in 2010 expense was a \$0.6 million increase in general and administrative related employee compensation, primarily as a result of an increase in general and administrative staffing as well as an increase in accrued performance based incentive compensation and stock compensation expense. Also contributing to the increase was a \$0.2 million increase in legal and consulting fees associated with satellite capacity and licensing arrangements in connection with the global expansion of our mini-VSAT Broadband satellite communication service. As a percentage of sales, year-to-date general and administrative expense decreased to 8% in 2010 from 9% in 2009.

Interest Income and Other Income

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

Income Tax Benefit

Income tax benefit for the six months ended June 30, 2010 increased by \$2.9 million to \$2.9 million from \$0.1 million for the six months ended June 30, 2009. The primary reason for the increase in 2010 was a tax benefit in the amount of \$4.0 million recognized as a result of the reversal of a substantial portion of the U.S. deferred tax asset valuation allowance during the second quarter of 2010. During the second quarter of 2010, based upon an evaluation of the positive and negative evidence, we concluded that \$4.0 million of the deferred tax asset valuation allowance was no longer required, resulting in a remaining valuation allowance requirement of \$2.3 million as of June 30, 2010. As part of our analysis, we evaluated, among other factors, our recent history of generating taxable income and our near-term forecasts of future taxable income and determined that it is more likely than not that we will be able to realize an additional \$4.0 million of our deferred tax assets over the next several years. After considering these factors, we concluded that a reversal of the valuation allowance was appropriate. Partially offsetting the income tax benefit was our \$4.5 million pre-tax income in 2010 versus a \$2.4 million pre-tax loss in 2009.

Liquidity and Capital Resources

We have historically funded our operations primarily from operating cash flows, net proceeds from public and private equity offerings, bank financings and proceeds received from exercises of stock options. As of June 30, 2010, we had \$45.5 million in cash, cash equivalents and marketable securities and \$66.2 million in working capital.

Net cash provided by operations was \$6.3 million for the six months ended June 30, 2010 as compared to net cash provided by operations of \$0.2 million for the six months ended June 30, 2009. The increase is primarily due to a \$9.8 million increase in net income, a \$5.1 million reduction in cash outflows related to accounts payable and accrued expenses, a \$1.6 million reduction in cash outflows for other long-term assets, a \$0.8 million reduction in cash outflows related to prepaid expenses and other assets. The decrease in cash outflows was partially offset by a \$3.7 million increase in cash outflows related to increased inventory levels, a \$3.3 million increase in cash outflows attributable to accounts receivable, primarily due to the growth in sales in the second quarter of 2010, and a decrease in cash inflows of \$0.7 million related to deferred revenue.

Net cash used in investing activities was \$6.9 million for the six months ended June 30, 2010 as compared to net cash used in investing activities of \$1.7 million for the six months ended June 30, 2009. The increase is primarily due to a \$3.4 million increase in our net investment in marketable securities as well as a \$1.7 million increase in capital expenditures. The increase in capital expenditures was due primarily to our initiative for the global expansion of our min-VSAT Broadband satellite communication products and service.

Net cash provided by financing activities was \$1.7 million for the six months ended June 30, 2010 as compared to net cash provided by financing activities of \$1.4 million for the six months ended June 30, 2009. The increase is primarily due to a \$2.0 million decrease in repayments of our mortgage loan, as we made a \$2.0 million balloon payment to pay off our former mortgage loan in the first quarter of 2009. Also contributing to the increase in net cash provided by financing activities was a \$2.1 million increase in proceeds from stock options exercised and employee stock purchase plan and a \$0.6 million decrease in repurchases of common stock. Partially offsetting the increase in cash provided by financing activities was a \$0.4 million increase in payments of employee restricted stock tax withholdings.

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

On August 4, 2010, we entered into a purchase and sale agreement to purchase a facility located in Tinley Park, Illinois, which we had previously leased, for approximately \$4.3 million. The property will be purchased using existing cash, cash equivalents and marketable securities.

Currently, we have a revolving loan agreement with a bank that provides for a maximum available credit of \$15.0 million and will expire on December 31, 2011. We pay interest on any outstanding amounts at a rate equal to, at our option, BBA LIBOR Daily Floating Rate plus 1.75%, or the Eurodollar Rate plus 1.75%. The line of credit contains two financial covenants, a Leverage Ratio and a Fixed Charge Coverage Ratio, that apply in the event that our consolidated cash, cash equivalents and marketable securities balance falls below \$25.0 million at any time. As our consolidated cash, cash equivalents and marketable securities balance was above \$25.0 million throughout the six months ended June 30, 2010, the Leverage Ratio and Fixed Charge Coverage Ratio did not apply. We may terminate the loan agreement prior to its full term without penalty, provided we give 30 days advance written notice to the bank. As of June 30, 2010, no borrowings were outstanding under the facility.

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

It is our intent to continue to invest in the mini-VSAT Broadband network on a global basis in cooperation with ViaSat under the terms of a 10-year agreement announced in July 2008. As part of this investment, we expect that we will purchase additional hubs from ViaSat over time for capacity and/or regional expansion. Each satellite hub represents a substantial capital investment. In 2008, we entered into

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an agreement to lease satellite capacity in order to provide coverage in the Pacific Ocean. In 2009, we also entered into several agreements with various satellite owners in order to provide satellite coverage to North American, Caribbean, African, Asia-Pacific, Indian Ocean, Australian and New Zealand waters. In addition to these agreements, as part of the coverage expansion, we plan to seek to acquire additional satellite capacity from Ku-band satellite operators, expend funds to seek regulatory approvals and permits, develop product enhancements in anticipation of the expansion and hire additional personnel. We anticipate these costs will be funded by cash, cash equivalents and marketable securities on hand, as well as cash flows from operations.

We believe that the \$45.5 million we hold in cash, cash equivalents and marketable securities, together with our other existing working capital and cash flows from operations, will be adequate to meet planned operating and capital requirements through at least the next twelve months. However, as the need or opportunity arises, we may seek to raise additional capital through public or private sales of securities or through additional debt financing. There are no assurances that we will be able to obtain any additional funding or that such funding will be available on terms acceptable to us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is in the area of foreign currency exchange risk. We are exposed to currency exchange rate fluctuations related to our subsidiary operations in Denmark. Certain transactions in Denmark are made in the Danish Krone or Euro, yet are reported in the U.S. dollar, the functional currency. For foreign currency exposures existing at June 30, 2010, 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.

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

The primary objective of our investment activities is to preserve principal and maintain liquidity, while at the same time maximize income. We have not entered into any instruments for trading purposes. Some of the securities that we invest in may have market risk. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities that can include commercial paper, United States treasuries, certificates of deposit, investment grade asset-backed corporate securities, money market mutual funds and government agency and non-government debt securities. As of June 30, 2010, a hypothetical 100 basis-point increase in interest rates would result in an immaterial decrease in the fair value of our investments that have maturities of greater than one year. Due to the conservative nature of our investments and the relatively short duration of their maturities, we believe interest rate risk is substantially mitigated. As of June 30, 2010, 71% of the \$38.5 million classified as available-for-sale marketable securities will mature or reset within one year. Accordingly, long-term interest rate risk is not considered material. We do not invest in any financial instruments denominated in foreign currencies as of June 30, 2010.

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Evaluation of Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. Risk Factors

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

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

Worldwide economic conditions have experienced a significant downturn over the last two years, including slower economic activity, tightened credit markets, inflation and deflation concerns, decreased consumer confidence, reduced corporate profits, reduced or canceled capital spending, adverse business conditions and liquidity concerns. These conditions make it difficult for businesses, governments and consumers to accurately forecast and plan future activities. Although net sales of our FOG products increased \$8.0 million, or 67%, from the six months ended June 30, 2009 to the six months ended June 30, 2010 driven largely by increased sales in support of remotely operated weapons station programs to European and U.S. contractors that sell to the U.S. government, there can be no assurance that such an increase will continue in the future. Governments are experiencing significant declines in tax receipts, which may cause them to curtail spending significantly or reallocate funds away from defense programs. There can be no assurances that government responses to the disruptions in the economy will remedy these problems. As a result of these and other factors, customers could slow or suspend spending on our products and services. We may also incur increased credit losses and need to increase our allowance for doubtful accounts, which would have a negative impact on our earnings and financial condition. We cannot predict the timing, duration or ultimate impact of this downturn. We expect our business to continue to be adversely impacted by this downturn.

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

Net sales of our mobile communications products are largely generated by discretionary consumer spending, and demand for these products may demonstrate slower growth or decline as a result of continuing weak regional and global economic conditions. Consumer spending tends to decline during recessionary periods and may decline at other times. For example, although sales of our mobile satellite communications products have recently increased, sales of those products declined approximately 27% from 2008 to 2009. These recent increases in sales may not be sustained in future periods. Consumers may choose not to purchase our mobile communications products due to a perception that they are luxury items. As global and regional economic conditions change, including the general level of interest rates, fluctuating oil prices and demand for durable consumer products, demand for our products could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a result of our continued build-out of the mini-VSAT Broadband network infrastructure, our cost of service sales includes certain fixed costs that do not vary with the volume of service sales. These fixed costs are increasing as we expand our network across the globe, and we have an extremely limited ability to reduce these fixed costs in the short term. If sales of our TracPhone V7 and the mini-VSAT Broadband service do not increase as we expect or decline, our service gross margins may remain below historical levels or decline. For example, our overall service gross margin, which also includes product repair sales, Inmarsat airtime sales, and contracted engineering sales, declined substantially from 28% for the three months ended June 30, 2009 to 16% for the three months ended June 30, 2010. The failure to improve our mini-VSAT Broadband service gross margins would have a material adverse effect on our overall profitability.

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

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

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

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

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

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

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

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

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

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

In the market for maritime broadband service we compete with Speedcast, MTN/SeaMobile, CapRock, Schlumberger, Ship Equip, Vizada and Stratos. In the marine market for satellite communications equipment, we compete with Cobham Sea Tel, Inc., Furuno Electric Co., Ltd., Globalstar LP, Thrane & Thrane A/S, Intellian, Ship Equip, JRC and Iridium Satellite LLC. Our TracPhone V7 system offers customers a range of benefits due to its integrated design, hardware costs that are lower than existing maritime VSAT systems, and spread spectrum technology. We currently compete against companies that offer established maritime VSAT service using, in some cases, antennas 1-meter in diameter or larger. We are beginning to see regional competition from companies offering similar 24-inch VSAT systems and services. In addition, other companies could replicate some of the distinguishing features of our TracPhone V7, which could potentially reduce the appeal of our solution, increase price competition and adversely affect sales. Moreover, consumers may choose other services such as FleetBroadband or Iridium OpenPort for their service coverage and potentially lower hardware costs despite higher service costs and slower data rates.

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

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

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

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

- changes in modernization plans for military equipment;

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

These factors can cause substantial fluctuations in sales of our FOG and TACNAV products from period to period. For example, sales of our FOG products increased \$8.0 million, or 67%, from the six months ended June 30, 2009 to the six months ended June 30, 2010 driven largely by increased sales in support of remotely operated weapons station programs. Although our expectation is that FOG product sales will continue to increase in 2010 compared to 2009 in support of various customer programs, including remotely operated weapons stations, we do not expect such a level of growth rate to continue. The Obama administration and Congress may change defense spending priorities, either in conjunction with the decision to commence troop withdrawals from Iraq and Afghanistan or for other reasons. Moreover, government customers and their contractors can generally cancel orders for our products for convenience or decline to exercise previously disclosed contract options. Even under firm orders with government customers, funding must often be appropriated in the budget process in order for the government to complete the contract. The cancellation of or failure to fund orders for our products could substantially reduce our net sales and results of operations.

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

KVH products sold to customers in the defense industry are purchased through orders that can generally range in size from several hundred thousand dollars to more than one million dollars. For example, during the three months ended June 30, 2010, we received a \$7.1 million order for our fiber optic gyro products and a \$2.0 million order for our TACNAV products. In July 2010, we also received a \$13.0 million TACNAV products order. As a result, the delay or cancellation of a single order could materially reduce our net sales and results of operations. We continue to experience unanticipated delays in defense orders, which make our revenues and operating results less predictable. Because our guidance and stabilization products typically have relatively higher product gross margins than our mobile communications products, the loss of an order for guidance and stabilization products could have a disproportionately adverse effect on our results of operations.

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

We derive a significant portion of our guidance and stabilization revenues from a small number of customers, most of whom are contractors for the U.S. Government. Our top four guidance and stabilization customers in 2009 accounted for approximately 27% of our net sales in that year, and 31% of our net sales for the first half of 2010. The loss of business from any of these customers could substantially reduce our net sales and results of operations and could seriously harm our business. Since we are often awarded a contract as a subcontractor to a major defense supplier that is engaged in a competitive bidding process as prime contractor for a major weapons procurement program, our revenues depend significantly on the success of the prime contractors with which we align ourselves.

For example, Kongsberg Defence & Aerospace AS, a major supplier of remotely operated weapons station programs and a purchaser of our FOG products, accounted for approximately 19% and 18% of our net sales in the second quarter and first half of 2010, respectively. In addition, a subcontractor to Kongsberg accounted for approximately 5% and 7% of our net sales in the second quarter and first half of 2010, respectively. Although, we anticipate to continue to supply Kongsberg and the subcontractor to Kongsberg with our products throughout 2010, our current backlog with Kongsberg extends only to October 2010. We are not operating under a long-term supply agreement with Kongsberg.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success depends on the services of our executive officers.

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

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

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

- technical challenges we may face in adapting our mobile communication products to function with different satellite services and technology in use in various regions around the world;
- satisfaction of international regulatory requirements and delays and costs associated with procurement of any necessary licenses or permits;
- restrictions on the sale of certain guidance and stabilization products to foreign military and government customers;
- increased costs of providing customer support in multiple languages;
- potentially adverse tax consequences, including restrictions on the repatriation of earnings;
- protectionist laws and business practices that favor local competitors, which could slow our growth in international markets;
- potentially longer sales cycles, which could slow our revenue growth from international sales;
- potentially longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- losses arising from foreign currency exchange rate fluctuations; and
- economic and political instability in some international markets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. A valuation allowance reduces deferred tax assets to estimated realizable value, which assumes that it is more likely than not that we will be able to generate sufficient future taxable income to realize the net carrying value. We review our deferred tax assets and valuation allowance on a quarterly basis. As part of our review, we consider positive and negative evidence, including cumulative results in recent years. As a result of our review for the quarter ended June 30, 2010, we concluded that a portion of the deferred tax asset valuation allowance was no longer required and, as a result, was reversed. A tax benefit of \$4.0 million was recognized as a result of this reversal.

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

The market price of our common stock may be volatile.

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

- variations in our quarterly results of operations;
- the introduction of new products by us or our competitors;
- changing needs of military customers;
- changes in estimates of our performance or recommendations by securities analysts;
- the hiring or departure of key personnel;
- acquisitions or strategic alliances involving us or our competitors;
- market conditions in our industries; and
- the global macroeconomic and geopolitical environment.

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

Acquisitions may disrupt our operations or adversely affect our results.

We evaluate strategic acquisition opportunities to acquire other businesses as they arise. The expenses we incur evaluating and pursuing acquisitions could have a material adverse effect on our results of operations. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational and other benefits we anticipate from any acquisition. Competition for acquisition opportunities could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, our approach to acquisitions may involve a number of special financial and business risks, such as:

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

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- the assumption of legal liabilities; and
- amortization of acquired intangible assets.

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

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

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

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

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

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<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs</u>	<u>Maximum Number of Shares That May Yet be Purchased Under the Programs</u>
April 1, 2010 – April 30, 2010	—	—	—	798,676
May 1, 2010 – May 31, 2010	—	—	—	798,676
June 1, 2010 – June 30, 2010	—	—	—	798,676
Total	—	—	—	—

ITEM 6. EXHIBITS

Exhibits:

<u>Exhibit No.</u>	<u>Description</u>	<u>Filed with this Form 10-Q</u>	<u>Incorporated by Reference</u>		
			<u>Form</u>	<u>Filing Date</u>	<u>Exhibit No.</u>
3.1	Amended and Restated Certificate of Incorporation, as amended	X			
3.3	Amended, Restated and Corrected Bylaws of KVH Industries, Inc.		8-K	July 31, 2007	3
4.1	Specimen certificate for the common stock		S-1/A	March 22, 1996	4.1
10.1	KVH Industries, Inc. Third Amended and Restated 2006 Stock Incentive Plan		8-K	June 2, 2010	10.1
10.2	KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan		8-K	June 2, 2010	10.2
10.3	Purchase and Sale Agreement by and between Jefferson-Pilot Investments, Inc. and KVH Industries, Inc.	X			
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer	X			
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer	X			
32.1	Section 1350 certification of principal executive officer	X			
32.2	Section 1350 certification of principal financial officer	X			

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 5, 2010

KVH Industries, Inc.

By: _____ /s/ PATRICK J. SPRATT
Patrick J. Spratt
**(Duly Authorized Officer and Chief Financial and
Accounting Officer)**

Exhibit Index

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32.2	Section 1350 certification of principal financial officer	X			

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
KVH INDUSTRIES, INC.**

KVH Industries, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

1. The Corporation filed its original Certificate of Incorporation with the Secretary of State of Delaware on August 16, 1985.

2. At a meeting of the Board of Directors of the Corporation, a resolution was duly adopted, pursuant to Section 245 of the General Corporation Law of the State of Delaware, approving an Amended and Restated Certificate of Incorporation of the Corporation and declaring said Amended and Restated Certificate of Incorporation advisable. The stockholders of the Corporation duly approved said proposed Amended and Restated Certificate of Incorporation by written consent in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware, and written notice of such consent has been given to all stockholders who have not consented in writing to said restatement. The Amended and Restated Certificate of Incorporation approved by the Board of Directors and stockholders of the Corporation is as follows:

FIRST: The name of the Corporation is KVH Industries, Inc.

SECOND: The location of the registered office of the Corporation in the State of Delaware is at 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent in charge thereof upon whom process against the Corporation may be served at that address is The Corporation Trust Company.

THIRD: The purposes of the Corporation are to design, develop, manufacture and sell electronic navigation instruments, electronic sensors and the components thereof, electronic circuits and electronic, electro-mechanical and mechanical components of all types and kinds, and computer software; and to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of Capital Stock which the Corporation shall have authority to issue is 12,000,000, consisting of (i) 11,000,000 shares of Common Stock, \$.01 par value per share ("Common Stock"), and (ii) 1,000,000 shares of Preferred Stock, \$.01 par value per share ("Preferred Stock").

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation:

A. COMMON STOCK.

1. General. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be designated by the Board of Directors upon any issuance of the Preferred Stock of any series.

2. Voting. The holders of Common Stock will be entitled to one vote per share on all matters to be voted on by the stockholders of the Corporation. There shall be no cumulative voting.

3. Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding Preferred Stock.

4. Liquidation. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential liquidation rights or any then outstanding Preferred Stock.

B. PREFERRED STOCK.

Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the Corporation as hereinafter provided. No share of Preferred Stock that is redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law herein. Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless so provided herein or by law.

Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by resolution or resolutions providing for the issue of the shares thereof, to determine and fix such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including without limitation thereof, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated and expressed in such resolutions, all to the full extent now or hereafter permitted by the General Corporation Law of Delaware. Without limiting the generality of the foregoing, the resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to the Preferred Stock of any other series to the extent permitted by law. Except as otherwise provided by law or by this Certificate of Incorporation, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the issuance of any shares of any series of the Preferred stock authorized by and complying with the conditions of the Certificate of Incorporation, the right to have such vote being expressly waived by all present and future holders of the capital stock of the Corporation.

FIFTH: The Board of Directors of the Corporation, in addition to its stockholders, shall have the power to make, alter and repeal the by-laws of the Corporation. The fact that such power has been so conferred upon the Directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal by-laws.

SIXTH: 1. Action, Suits and Proceedings Other Than by or in the Right of the Corporation. The Corporation shall indemnify each person who was or is a party or is threatened to

be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (all such persons being referred to hereafter as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) judgment, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Notwithstanding anything to the contrary in this Article, except as set forth in Section 6 below, the Corporation shall not indemnify an Indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by the Indemnitee unless the initiation thereof was approved by the Board of Directors of the Corporation.

2. Actions or Suits by or in the Right of the Corporation. The Corporation shall indemnify any Indemnitee who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed

to, the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expense (including attorneys' fees) which the Court of Chancery of Delaware shall deem proper.

3. Indemnification for Expenses of Successful Party. Notwithstanding the other provisions of this Article, to the extent that an Indemnitee has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article, or in defense of any claim, issue or matter therein, or on appeal from any such action, suit or proceeding, he shall be indemnified against all expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection therewith. Without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to the Indemnitee, (ii) an adjudication that the Indemnitee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by the Indemnitee, (iv) an adjudication that the Indemnitee did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that the Indemnitee had reasonable cause to believe his conduct was unlawful, the Indemnitee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

4. Notification and Defense of Claim. As a condition precedent to his right to be indemnified, the Indemnitee must notify the Corporation in writing as soon as practicable of any action, suit, proceeding or investigation involving him for which indemnity will or could be sought. With respect to any action, suit, proceeding or investigation of which the Corporation is so notified, the Corporation will be entitled to participate therein at its own expense and/or to assume the defense thereof at its own expense, with legal counsel reasonably acceptable to the Indemnitee. After notice from the Corporation to the Indemnitee of its election so to assume such defense, the Corporation shall not be liable to the Indemnitee for any legal or other expenses subsequently incurred by the Indemnitee in connection with such claim, other than as provided below in this Section 4. The Indemnitee shall have the right to employ his own counsel in connection with such claim, but the fees and expenses of such counsel incurred after notice from the Corporation of its

assumption of the defense thereof shall be at the expense of the Indemnitee unless (i) the employment of counsel by the Indemnitee has been authorized by the Corporation, (ii) counsel to the Indemnitee shall have reasonably concluded that there may be a conflict of interest or position on any significant issue between the Corporation and the Indemnitee in the conduct of the defense of such action, or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel for the Indemnitee shall be at the expense of the Corporation, except as otherwise expressly provided by this Article. The Corporation shall not be entitled, without the consent of the Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for the Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above.

5. Advance of Expenses. Subject to the provisions of Section 6 below, in the event that the Corporation does not assume the defense pursuant to Section 4 of this Article of any action, suit, proceeding or investigation of which the Corporation receives notice Under this Article, any expenses (including attorneys' fees) incurred by an Indemnitee in defending a civil or criminal action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Corporation in advance of the final disposition of such matter; provided, however, that the payment of such expense incurred by an Indemnitee in advance of the final disposition of such matter shall be made only upon receipt of an undertaking by or on behalf of the Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Corporation as authorized in this Article. Such undertaking shall be accepted without reference to the financial ability of the Indemnitee to make such repayment.

6. Procedure for Indemnification. In order to obtain indemnification of or advancement of expenses pursuant to Section 1, 2, 3 or 5 off this Article, the Indemnitee shall submit to the Corporation a written request, including in such request such documentation and information as is reasonably available to the Indemnitee and is reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification or advancement of expenses. Any such indemnification or advancement of expenses shall be made promptly, and in any event within sixty (60) days after receipt by the Corporation of the written request of the Indemnitee, unless with respect to requests under Section 1, 2 or 5 the Corporation determines, by clear and convincing evidence, within such sixty (60) day period that the Indemnitee did not meet the applicable standard of conduct set forth in Section 1 or 2, as case may be. Such determination shall be made in each instance by (a) a majority vote of the directors of the

Corporation consisting of persons who are not at that time parties to the action, suit or proceeding in question (“disinterested directors”), even though less than a quorum, (b) a majority vote of a quorum of the outstanding shares of stock of all classes entitled to vote for directors, voting as a single class, which quorum shall consist of stockholders who are not at that time parties to the action, suit or proceeding in question. (c) independent legal counsel (who may be regular legal counsel to the Corporation), or (d) a court of competent jurisdiction.

7. Remedies. The right to Indemnification or advances as granted by this Article shall be enforceable by the Indemnitee in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within the sixty (60) day period referred to above in Section 6. Unless otherwise provided by law, the burden of proving that the Indemnitee is not entitled to indemnification or advancement of expenses under this Article shall be on the Corporation. Neither the failure of the Corporation to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, nor an actual determination by the Corporation pursuant to Section 6 that the Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The Indemnitee’s expenses (including attorneys’ fees) incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such proceeding shall also be indemnified by the Corporation.

8. Subsequent Amendment. No amendment, termination or repeal of this Article or of the relevant provisions of the General Corporation Law of Delaware or any other applicable laws shall affect or diminish in any way the rights of any Indemnitee to Indemnification under the provision hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

9. Other Rights. The indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which an Indemnitee seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), agreement or vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in any other capacity while holding office for the Corporation, and shall continue as to an Indemnitee who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of the Indemnitee. Nothing contained in this

Article shall be deemed to prohibit, and the Corporation is specifically authorized to enter into, agreements with officers and directors providing indemnification rights and procedures different from those set forth in this Article. In addition, the Corporation may, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the Corporation or other persons serving the corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article.

10. Partial Indemnification. If an Indemnitee is entitled under any provision of this Article to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), judgments, fines or amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with any action, suit, proceeding or investigation and any appeal, therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Indemnitee for the portion of such expenses (including attorneys' fees), judgments, fines or amounts paid in settlement to which the Indemnitee is entitled.

11. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) against any expense, liability or loss incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of Delaware.

12. Merger or Consolidation. If the Corporation is merged into or consolidated with another corporation and the Corporation is not the surviving corporation, the surviving corporation shall assume the obligations of the Corporation under this Article with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the date of such merger or consolidation.

13. Savings Clause. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Indemnitee as to any expenses (including attorneys' fees) judgments, fines and amounts paid in settlement in connection with any action, suit, proceeding or investigation, whether civil, criminal or administrative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article that shall not have been invalidated and to the fullest extent permitted by applicable law.

14. Definitions. Terms used herein and defined in Section 145(h) and Section 145(i) of the General Corporation Law of Delaware shall have the respective meanings assigned to such terms in such Section 145(h) and Section 145(i).

15. Subsequent Legislation. If the General Corporation Law of Delaware is amended after adoption of this Article to expand further the indemnification permitted to Indemnitees, then the Corporation shall indemnify such persons to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

SEVENTH: Except to the extent that the General Corporation Law of the State of Delaware prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment.

EIGHTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of section 279 of Title 6 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this Corporation.

NINTH: Any and all right, title, interest and claims in or to any dividends declared by the Corporation, whether in cash, stock or otherwise, which are unclaimed by the stockholder entitled thereto for a period of six (6) years after the close of business on the payment date, shall be and shall be deemed to be extinguished and abandoned; and such unclaimed dividends in the possession of the Corporation, its transfer agents or other agents or depositories, shall at such time become the absolute property of the Corporation, free and clear of any and all claims of any persons whatsoever.

TENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute and this Amended and Restated Certificate of Incorporation, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH: This Article is inserted for the management of the business and for the conduct of the affairs of the Corporation.

1. Number of Directors. The number of directors of the Corporation shall not be less than three (3). The exact number of directors within the limitations specified in the preceding sentence shall be fixed from time to time by, or in the manner provided in, the Corporation's By-laws.

2. Classes of Directors. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class III, and if such fraction is two-thirds, one of the extra directors shall be a member of class II and one of the extra directors shall be a member of Class III, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

3. Election of Directors. Elections of directors need not be by written ballot except as and to the extent provided in the By-laws of the Corporation.

4. Terms of Office. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that each initial director in Class I shall serve for a term ending on

the date of the annual meeting in 1997; each initial director in Class II shall serve for a term ending on the date of the annual meeting in 1998; and each initial director in Class III shall serve for a term ending on the date of the annual meeting in 1999; and provided further, that the term of each director shall be subject to the election and qualification of his successor and to his earlier death, resignation or removal.

5. Allocation of Directors Among Classes in the Event of Increases or Decreases in the Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensue that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

6. Quorum; Action at Meeting. A majority of the directors at any time in office shall constitute a quorum for the transaction of business. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each director so disqualified, provided that in no case shall less than one-third of the number of directors fixed pursuant to Section 1 above constitute a quorum. If at any meeting of the Board of Directors there shall be less than such a quorum, a majority of those present may adjourn the meeting from time to time. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number is required by law, by the By-laws of the Corporation or by this Amended and Restated Certificate of Incorporation.

7. Removal. Directors of the Corporation may be removed only for cause by the affirmative vote of the holders of at least two-thirds of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote.

8. Vacancies. Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the board, shall be filled only by a vote of a majority of the directors then in office, although less than a

quorum, or by a sole remaining director. A director elected to fill a vacancy shall be elected to hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his successor and to his earlier death, resignation or removal.

9. Stockholder Nominations and Introduction of Business, Etc. Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders shall be given in the manner provided by the By-laws of the Corporation.

10. Amendments to Article. Notwithstanding any other provisions of law, this Amended and Restated Certificate of Incorporation or the By-laws of the Corporation, each as amended, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of capital stock of the Corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article ELEVENTH.

TWELFTH: Commencing upon the effective date of the registration of any class of the Corporation's capital stock under the Securities Exchange Act of 1934, as amended, and for so long as any such registration remains in effect, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing by such stockholders. Notwithstanding any other provisions of law, this Amended and Restated Certificate of Incorporation or the By-laws of the Corporation, each as amended, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of capital stock of the Corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article TWELFTH.

THIRTEENTH: Special meetings of stockholders may be called at any time only by the President or the Board of Directors. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting. Notwithstanding any other provision of law, this Amended and Restated Certificate of Incorporation or the By-laws of the Corporation, each as amended, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of capital stock of the Corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article THIRTEENTH.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be signed by its President this 22 day of March, 1996.

KVH INDUSTRIES, INC.

By: /s/ Martin A. Kits van Heyningen
President and Chief Executive Officer

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
KVH INDUSTRIES, INC.

KVH Industries, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of said corporation resolutions were duly adopted proposing and declaring advisable that the Restated Certificate of Incorporation of said corporation be amended and that such amendments be submitted to the stockholders of the Corporation for their consideration, as follows:

RESOLVED: That the Board of Directors of this Corporation recommends and deems it advisable that the Restated Certificate of Incorporation of this Corporation be amended by amending Article FOURTH thereof to increase the total number of shares of all classes of capital stock the Corporation is authorized to issue to 21,000,000, consisting of (i) 20,000,000 shares of Common Stock, \$.01 par value per share ("Common Stock"), and (ii) 1,000,000 shares of Preferred Stock, \$.01 par value per share ("Preferred Stock");

RESOLVED: That the aforesaid proposed amendment be submitted to the stockholders of the Corporation for their consideration; and

RESOLVED: That following the approval by the stockholders of the aforesaid amendment as required by law, the officers of this Corporation be, and they hereby are, and each of them hereby is, authorized and directed (i) to prepare, execute and file with the Secretary of State of the State of Delaware a Certificate of Amendment setting forth the aforesaid amendment in the form approved by the stockholders and (ii) to take any and all other actions necessary, desirable or convenient to give effect to the aforesaid amendments or otherwise to carry out the purposes of the foregoing Resolutions.

SECOND: That at a meeting of the stockholders on March 2, 2001, the stockholders have approved the amendment in accordance with Section 211 of the General Corporation Law of the State of Delaware.

THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said KVH Industries, Inc. has caused this certificate to be signed by Richard C. Forsyth, its Chief Financial Officer, this 22nd day of March, 2001.

KVH INDUSTRIES, INC.

By: /s/ Richard C. Forsyth
Richard C. Forsyth,
Chief Financial Officer

**CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
KVH INDUSTRIES, INC.**

KVH Industries, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

- FIRST:** That at a meeting of the Board of Directors of said corporation resolutions were duly adopted proposing and declaring advisable that the Restated Certificate of Incorporation of said corporation be amended and that such amendments be submitted to the stockholders of the Corporation for their consideration, as follows:
- RESOLVED: That the Board of Directors recommends and deems it advisable that the Certificate of Incorporation of the Corporation be amended to increase the total number of authorized shares of Common Stock, par value \$0.01 per share (the "Common Stock"), of the Corporation from 20,000,000 to 30,000,000.
- RESOLVED: That the foregoing amendment to the Certificate of Incorporation of the Corporation be submitted to the stockholders of the Corporation at the Annual Meeting for their consideration and approval.
- RESOLVED: That, following the approval of the foregoing amendment to the Certificate of Incorporation of the Corporation by the stockholders of the Corporation as required by law, the officers of the Corporation be, and they hereby are, and each of them acting alone hereby is, authorized and directed (a) to prepare, execute, acknowledge and file with the Secretary of State of the State of Delaware the foregoing amendment to the Certificate of Incorporation of the Corporation in the form approved by the stockholders of the Corporation and (b) to take any and all other actions necessary, desirable or convenient to give effect to the foregoing amendment to the Certificate of Incorporation of the Corporation.
- SECOND:** That at a meeting of the stockholders on May 26, 2010, the stockholders have approved the amendment in accordance with Section 211 of the General Corporation Law of the State of Delaware.
- THIRD:** That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said KVH Industries, Inc., has caused this certificate to be signed by Martin A. Kits van Heyningen, its Chief Executive Officer, this 28th day of July, 2010.

KVH INDUSTRIES, INC.

By: /s/ Martin A. Kits van Heyningen
Name: Martin A. Kits van Heyningen
Title: President, Chief Executive Officer and Chairman of the Board

PURCHASE AND SALE AGREEMENT

by and between

JEFFERSON-PILOT INVESTMENTS, INC.

("Seller")

and

KVH INDUSTRIES, INC.

("Purchaser")

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (“Agreement”) is entered into by and between JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation (“Seller”), and KVH INDUSTRIES, INC., a Delaware corporation (“Purchaser”).

WITNESSETH:

For One Hundred and No/100 US Dollars (US \$100.00) paid Seller by Purchaser, which amount is non-refundable, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Seller and Purchaser agree as follows:

ARTICLE I
DEFINITIONS & CONSTRUCTION

1.01 Definitions. For purposes of this Agreement, each of the following terms, when used with an initial capital letter, shall have the meaning ascribed to it in this Article:

(i) “Affiliate” means any person or entity that owns or controls, is owned or controlled by, or is under common ownership or control with the party in question. As used in the preceding sentence, the term “control” (and its derivatives) shall mean the possession, directly or indirectly, of the power to direct the management and policies of an entity, whether through voting rights, by contract or otherwise. For the purposes of this Agreement, any separate account or client for which Purchaser is sponsor, managing agent, asset manager or fund manager shall be deemed an “Affiliate” of Purchaser.

(ii) “Business Days” means Monday through Friday, excluding federal holidays on which national banking associations in Greensboro, North Carolina are authorized to be closed.

(iii) “Closing” means the closing and consummation of the purchase and sale of the Property pursuant to this Agreement.

(iv) “Closing Date” means the date upon which Closing occurs.

(v) “Current Tax Period” means the tax year in which the Closing occurs.

(vi) “Deposit” shall have the meaning ascribed to it under Section 2.03.

(vii) “Effective Date” means the latest date Seller or Purchaser executes this Agreement, as shown on the signature block set forth below.

(viii) “Entity” means any person, partnership, limited partnership, joint venture, corporation, limited liability company, trust, governmental authority or other entity.

(ix) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

(x) “Escrow Agent” means First American Title Insurance Company.

(xi) “Hazardous Substances” means all hazardous wastes, hazardous substances, extremely hazardous substances, hazardous constituents, hazardous materials and toxic substances that are regulated under any Legal Requirements pertaining to the environment, including, but not limited to, (i) the

Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. § 9601 et seq., (ii) the Hazardous Materials Transportation Authorization Act of 1994, as amended, 49 U.S.C. § 5101 et seq., (iii) the Resource, Conservation and Recovery Act of 1976, as amended, 42 U.S.C. § 6901 et seq., (iv) the Clean Water Act, as amended, 33 U.S.C. § 1251 et seq., (v) the Toxic Substances Control Act of 1976, as amended, 15 U.S.C. § 2601 et seq., (vi) the Clean Air Act, as amended, 42 U.S.C. § 7401 et seq., and (vii) any so-called “superfund” or “superlien” law.

(xii) “Investigation Period” means the period commencing on the Effective Date and expiring on thirty (30) days after the Effective Date, except that Purchaser shall have the right to extend the Investigation Period for a period of fifteen (15) days upon a showing of cause by the Purchaser. For the purposes of this Agreement, “cause” shall mean and include any delays in the due diligence process caused by or arising out of Purchaser’s efforts to finance the purchase of the Property or Purchaser’s reasonable determination that additional time is needed to complete Purchaser’s investigations.

(xiii) “Legal Requirements” means all applicable governmental laws, statutes, codes, ordinances, rules, regulations, orders, judgments and decrees.

(xiv) “Monetary Liens” means all liens, mortgages, deeds of trust, financing statements and other security interests encumbering the Property. Monetary Liens shall not include the lien for unpaid Property Taxes for the Current Tax Period and subsequent years and any liens under the Permitted Exceptions that secure amounts first arising after Closing.

(xv) “Operating Agreements” means all operating agreements related to the Property to which Seller is a party, including, but not limited to, management, leasing, equipment rental, supply, security, maintenance, pest control, utility, and waste disposal contracts.

(xvi) “Owner’s Title Policy” means an owner’s title insurance policy on the most recent standard ALTA form promulgated for use in the State of Illinois issued by Escrow Agent that insures Purchaser is the owner of the Real Property, subject to the Permitted Exceptions, is in the amount of the Purchase Price, and is based on the Title Commitment.

(xvii) “Permitted Exceptions” means: (i) Property Taxes for the Current Tax Period and subsequent years, including, but not limited to, any lien securing the payment thereof; (ii) reservations, exceptions, covenants, conditions, restrictions, agreements, easements, setback lines and other matters of record and to which the Purchaser has not objected pursuant to Section 3.04 hereof; (iii) zoning regulations and other governmental laws, rules, regulations, codes, orders and directives affecting the Property; (iv) unrecorded easements, discrepancies, boundary line disputes, overlaps, shortages in area, encroachments and other matters revealed by the survey provided to Purchaser as one of the Submission Items pursuant to Section 3.02 (or any survey ordered by the Purchaser) and to which Purchaser has not objected pursuant to Section 3.05; (v) the rights that the public and upper and lower riparian owners have in any waters present on the Real Property; and (vi) matters arising as a result of the acts or omissions of Purchaser or any of its Affiliates, agents, employees, contractors or representatives.

(xviii) “Personal Property” means all equipment, furniture, trade fixtures and other tangible personal property owned by Seller that is located on the Real Property (list of which is included in Schedule 7.02-B attached hereto and made a part hereof).

(xix) “Property” means the Real Property and the Personal Property.

(xx) "Property Taxes" means the real property taxes, personal property taxes and assessments (general and special, public and private) levied against the Real Property and the Personal Property.

(xxi) "Property Manager" means Podolsky Northstar Realty Partners, LLC.

(xxii) "Purchase Price" shall be as set forth in Section 2.02.

(xxiii) "Real Property" means real property located at 8412 W. 185th Street, Tinley Park, IL 60477 and more particularly described on **Schedule 1.01(xxiii)**, including, but not limited to, the building, structures, fixtures, and other improvements located on said real property, but excluding any improvements owned by Tenant or other parties that are located on said real property pursuant to the terms of the Permitted Exceptions.

(xxiv) "Required Closing Date" means the date agreed to by Seller and Purchaser, but in all events no later than the date which is fifteen (15) days after the end of the Investigation Period.

(xxv) "Seller's Actual Knowledge" means the actual, affirmative knowledge of Nicholas R. Heinzelmann without any diligence, inquiry, investigation or imputation; provided, however, there shall be no personal liability on the part of such person(s) under this Agreement or as a result of any of the representations and warranties set forth herein. Seller represents and warrants to Purchaser that such individual is the agent of Seller most likely to have actual knowledge of the facts relating to the Property.

(xxvi) "Submission Items" means the items described on **Schedule 1.01(xxvi)** to the extent the same are located in the offices of the Seller in Greensboro, North Carolina.

(xxvii) "Surviving Operating Agreement" means all of the Operating Agreements that remain in effect at the time of the Closing.

(xxviii) "Title Commitment" means a title commitment for the Owner's Title Policy, with an extended coverage endorsement over all the general title exceptions, and zoning 3.1 (modified to include parking), survey, access, location, tax parcel (PIN), subdivision and contiguity endorsements in form and substance reasonably acceptable to Purchaser.

(xxix) "Transaction Documents" means this Agreement and the documents executed by Seller and/or Purchaser at Closing.

(xxx) "Warranties" means all warranties related to the Property that are in effect as of the Closing and are freely assignable by Seller, without cost or consent.

ARTICLE II PURCHASE & SALE

2.01 Purchase & Sale. Subject to and in accordance with the terms of this Agreement, Seller agrees to sell all of its right, title and interest in the Property to Purchaser and the Purchaser agrees to purchase all of Seller's rights, title and interest in the Property from Seller.

2.02 Purchase Price. At Closing, Purchaser shall pay Four Million Two Hundred Eighty-Two Thousand Three hundred Fifty-Eight and No/100 Dollars (\$4,282,358.00) (the "Purchase Price") to Seller, in immediately available funds, less any adjustments expressly provided for in Section 2.03, Section 3.05,

ARTICLE VII AND ARTICLE VIII. Purchaser shall pay the Purchase Price to Seller by wire transfer to the account specified by Seller, in writing, and Purchaser shall coordinate with Seller to make sure Purchaser has all wiring information required for it to tender the Purchase Price to Seller at Closing.

2.03 Earnest Money Deposit. Within one (1) Business Day of the Effective Date, Purchaser shall deposit the sum of Two Hundred Thousand and No/100 Dollars (\$200,000.00), in immediately available funds, with Escrow Agent, which amount, together with the interest earned on thereon, is referred to in this Agreement as the "Deposit." The Escrow Agent shall hold and retain the Deposit, in trust, and shall disburse the same in accordance with the terms and conditions of the Earnest Money Escrow attached hereto as Schedule 2.03-A. If the Property is sold to Purchaser pursuant to this Agreement, then the Deposit shall be paid to the Seller at Closing and applied against the payment of the Purchase Price and the interest earned thereon shall be paid to Purchaser. If this Agreement is terminated, the Deposit shall be disbursed to Seller or Purchaser, as applicable, in accordance with the terms of the Earnest Money Escrow. The Purchaser's failure to make any deposit of funds called for hereunder in a timely fashion shall be deemed a material default hereunder.

ARTICLE III INSPECTION

3.01 Entry & Access. While this Agreement remains in effect, Purchaser and its agents, employees, contractors and representatives shall have the right to enter upon the Property for purposes of performing inspections, surveys, environmental audits and other similar activities during the Investigation Period; provided (i) Purchaser shall not conduct any environmental investigations of the Property beyond a Phase I environmental site assessment (e.g, no environmental sampling or testing) or any activities likely to cause material damage to the Property without Seller's written consent, (ii) Purchaser shall comply with the terms of this Agreement, the Leases, the Permitted Exceptions and Legal Requirements, and (iii) Purchaser shall not materially interfere with any tenant's use of the Property. Before Purchaser (or any of its agents, employees, contractors or representatives) may enter upon the Property, Purchaser shall give twenty-four (24) hours advance notice to Seller or Seller's Property Manager. Seller may accompany, or have an employee of Seller's Property Manager accompany, Purchaser and its agents, employees, contractors and representatives while they are on the Property. Purchaser shall maintain commercial general liability insurance, with a combined single limit for personal injury, death and property damage of not less than One Million and No/100 Dollars (\$1,000,000.00) per occurrence and naming Seller as an additional insured. Purchaser shall provide Seller with written certificate of insurance evidencing such liability insurance prior to Purchaser or any of its agents, employees, contractors or representatives entering on the Property. Purchaser shall repair all damage to the Property resulting from Purchaser's exercise of its rights under this section or caused by Purchaser (or any of its agents, employees, contractors or representatives) prior to Closing. In addition, Purchaser shall indemnify, defend and hold harmless Seller from and against all claims, demands, actions, lawsuits, liabilities, damages, costs and expenses (including, but not limited to, court costs, litigation expenses and attorneys' fees) arising as a result of Purchaser's activities on the Property prior to the Closing, except to the extent the same are directly due to the negligence or willful misconduct of Seller or any of its agents, employees, contractors or representatives. Purchaser's obligations under this section shall survive the termination of this Agreement or the Closing, as applicable.

3.02 Submission Items. Within five (5) Business Days after the Effective Date, Seller shall deliver the Submission Items to Purchaser. Except as otherwise expressly provided in this Agreement, Purchaser acknowledges and agrees that Seller has not made and is not making any representations or warranties regarding the Submission Items, and Purchaser relies on the Submission Items at its own risk.

3.03 Inspection Contingencies. During the Investigation Period, Purchaser shall conduct its due diligence and inspections with respect to the Property, including, but not limited to, its review of the Operating Agreements, the Warranties and the other Submission Items. As part of its inspections, Purchaser shall review the Title Commitment, which Purchaser shall order within three (3) Business Days of the Effective Date, and the survey of the Real Property provided to Purchaser as one of the Submission Items. If Purchaser determines that the Property is not satisfactory, in its sole and absolute discretion, then Purchaser may, as its sole and exclusive remedy, terminate this Agreement by giving written notice to Seller prior to 5:00 p.m. Eastern Time on the last day of the Investigation Period, in which case the Deposit shall be immediately refunded to Purchaser. If Purchaser fails to terminate this Agreement by giving written notice to Seller prior to 5:00 p.m. Eastern Time on the last day of the Investigation Period, then (i) Purchaser will be deemed to have waived its right to terminate this Agreement under this Section 3.03, and (ii) Purchaser shall proceed with its purchase of the Property in accordance with the terms of this Agreement, subject to satisfaction of the Purchaser Closing Conditions (as defined in Section 7.03 below). Purchaser shall no later than the end of the Investigation Period provide Seller written notice stating whether Purchaser has elected to assume any Operating Agreement and any Operating Agreements so elected shall be Surviving Operating Agreements. In the event Seller is not provided with such written notice, Purchaser shall be deemed to have elected to assume all Operating Agreements.

3.04 Title Commitment. Not later than seven (7) days before the end of the Investigation Period, Purchaser shall provide Seller with a written notice of any matters on the Title Commitment to which Purchaser objects. Within seven (7) days after Seller's receipt of notice of Purchaser's objections, Seller shall provide written notice to Purchaser as to whether Seller will cure any such objections or refuse to cure the objections. Except as otherwise provided herein as to monetary liens, in no event shall Seller be obligated to cure any objections. If Seller fails to deliver notice of its election to Purchaser, Seller shall be deemed to have elected not to cure the objections. In the event Seller elects, or is deemed to have elected, not to cure any objections, then Purchaser shall have the right to either waive the objection and proceed to Closing, in which event the exception shall be deemed a Permitted Exception, or terminate this Agreement, in which event the Deposit shall be immediately refunded to Purchaser and the parties shall have no further rights or objections hereunder. In the event Purchaser fails to deliver to Seller written notice of its election within seven (7) days after Seller's notice of Seller's election, then Purchaser shall be deemed to have elected to waive the objections and proceed to Closing. All objections that are waived, or deemed to be waived by Purchaser shall become Permitted Exceptions. In the event Seller elects to cure any objections, Seller shall have until Closing to complete the cure of such objections to the reasonable satisfaction of Purchaser.

3.05 Survey. Seller agrees that Purchaser reserves the option to cause a survey of the Property or an update of the existing survey of the Property to be made by a surveyor acceptable to the Title Company. Purchaser agrees to make payment in full and to be solely responsible for all costs of obtaining any such survey and, in the event of Closing, Seller agrees to reimburse Purchaser for the cost of the survey or survey update (in no event, however, shall such reimbursement exceed \$2,000.00). If the survey provided to Purchaser as one of the Submission Items pursuant to Section 3.02 (or any survey ordered by the Purchaser), shall reflect any encroachments, overlaps, unrecorded easements or similar rights in third parties, or any other adverse matters not specifically provided for in this Agreement, then not later than seven (7) days before the end of the Investigation Period, Purchaser shall provide Seller with a written notice of any matters on such survey to which Purchaser objects. Within seven (7) days after Seller's receipt of notice of Purchaser's objections, Seller shall provide written notice to Purchaser as to whether Seller will cure any such objections or refuse to cure the objections. In no event shall Seller be obligated to cure any objections. If Seller fails to deliver notice of its election to Purchaser, Seller shall be deemed to have elected not to cure the objections. In the event Seller elects, or is deemed to have elected, not to cure any objections, then Purchaser shall have the right to either waive the objection and proceed to Closing, in which event the exception shall be deemed a Permitted Exception, or terminate this Agreement, in which event the Deposit shall be immediately refunded to Purchaser

and the parties shall have no further rights or obligations hereunder. In the event Purchaser fails to deliver to Seller written notice of its election within seven (7) days after Seller's notice of Seller's election, then Purchaser shall be deemed to have elected to waive the objections and proceed to Closing. All objections that are waived, or deemed to be waived, by Purchaser shall become Permitted Exceptions. In the event Seller elects to cure any objections, Seller shall have until Closing to complete the cure of such objections to the reasonable satisfaction of Purchaser.

3.06 Due Diligence Materials. If this Agreement is terminated for any reason other than a default by Seller, Purchaser shall return all of the Submission Items to Seller. The provisions of this section shall survive the termination of this Agreement.

3.07 CC&Rs. If the Property is subject to a declaration of covenants, conditions and restrictions ("CC&Rs") governing the use, operation, maintenance, management or improvement of the Property, then Seller shall cooperate with Purchaser's efforts to obtain an estoppel certificate, in form and substance reasonably acceptable to Purchaser, with respect to the CC&Rs during the Investigation Period. Purchaser agrees not to object to any non-material qualifications or modifications made to any such estoppel certificate. If Purchaser is unable to obtain such an estoppel certificate during the Investigation Period, Purchaser, as its sole and exclusive remedy, may terminate this Agreement pursuant to Section 3.03, by giving written notice to Seller prior to 5:00 p.m. Eastern Time on the last day of the Investigation Period.

ARTICLE IV OPERATIONS PRIOR TO CLOSING

4.01 Operating Agreements.

(a) Operating Agreements. Except as otherwise expressly provided herein, all of the Surviving Operating Agreements shall be assigned to and assumed by Purchaser at Closing. Seller shall terminate any other Operating Agreement at the time of the Closing, except for any municipal alarm monitoring agreements which may not be terminated. Seller agrees to use reasonable efforts to obtain all consents, if any, necessary to allow it to assign the Surviving Operating Agreements to Purchaser at the Closing. If Seller has not obtained any consent required for Seller to validly assign any Surviving Operating Agreement to Purchaser, then Seller (at Seller's sole cost and expense) shall terminate such Surviving Operating Agreement and notify Purchaser of the termination thereof, in writing.

(b) New Operating Agreements and Modifications to Existing Operating Agreements. Seller shall not enter into any new Operating Agreement or amend, modify or extend any existing Operating Agreement, unless Seller either obtains the prior written approval of Purchaser, which approval shall not be unreasonably withheld, or such Operating Agreement may be terminated, without additional cost to Purchaser, on thirty (30) days written notice. While this Agreement remains in effect, Seller shall not terminate any existing Operating Agreement, unless Seller is required or permitted to terminate such Operating Agreement under the terms of Section 4.01(a). If Purchaser does not notify Seller, in writing, that it objects to any proposed Operating Agreement or any proposed amendment, modification or extension of an Operating Agreement within seven (7) Business Days after Purchaser's receipt of a copy thereof, then Purchaser shall be deemed to have approved the same.

4.02 Monetary Liens. Seller shall cause all Monetary Liens to be released by the Closing excluding (i) the lien for Property Taxes for Current Tax Period and subsequent years which are not yet due and payable, and (ii) any lien securing future assessments under the Permitted Exceptions. Seller shall be deemed to have complied with its obligations under this section with respect to any Monetary Lien if: (i) Seller has obtained a payoff letter from the beneficiary of such Monetary Lien setting forth the amount (the "Payoff Amount") that

must be paid to release such Monetary Lien; (ii) Seller tenders the Payoff Amount for such Monetary Lien to Escrow Agent at Closing; and (iii) the Owner's Title Policy insures Purchaser against loss and damage resulting from the enforcement or attempted enforcement of such Monetary Lien.

4.03 Operations. Notwithstanding anything in this Agreement to the contrary, from the Effective Date through the Closing Date, Seller shall continue to operate the Property in substantially the same manner as Seller has prior to the Effective Date.

ARTICLE V
REPRESENTATIONS & WARRANTIES

5.01 Seller Representations and Warranties. Subject to the other terms hereof, Seller represents and warrants to Purchaser that as of the Effective Date:

(i) (A) Seller is a corporation, duly organized, validly existing and in good standing under the laws of the State of Indiana, (B) Seller is, to the extent required by law, duly qualified to do business in the State of Illinois, (C) Seller has all power and authority necessary for it to execute and deliver this Agreement and perform its obligations hereunder, and (D) the execution, delivery and performance of this Agreement by Seller does not conflict with or constitute a breach of any contract, agreement or other instrument by which Seller or any Property is bound;

(ii) the execution and delivery of this Agreement by Seller and Seller's performance of its obligations under this Agreement does not conflict with or result in a breach of any order, judgment, writ, injunction or decree of any court, arbiter or governmental instrumentality in any action to which Seller is a party;

(iii) Seller is not (A) a "foreign person," as such term is defined in Section 1445(f)(3) of the Internal Revenue Code of 1954, as amended, or (B) a "disregarded entity" as such term is defined in Section 1.1445-2(b)(2)(iii) of the Code of Federal Regulations;

(iv) Seller has not (A) filed any voluntary petition in bankruptcy or sought to reorganize its affairs under the Bankruptcy Code of the United States or any other federal, state or local law related to bankruptcy, insolvency or relief for debtors, (B) been adjudicated as bankrupt or insolvent, or (C) had an involuntary petition filed against it under the Bankruptcy Code of the United States or any other federal, state or local law related to bankruptcy, insolvency or relief for debtors;

(v) to Seller's Actual Knowledge, there are no pending condemnation proceedings affecting the Property, except for the matters disclosed on **Schedule 5.01-A**;

(vi) Seller is not a party to any pending lawsuits affecting the Property, except for the matters disclosed on **Schedule 5.01-B**, and (B) Seller has not received written notice from any governmental authority that the Property is in violation of Legal Requirements;

(vii) **Schedule 5.01-E** contains a complete list of all Operating Agreements as of the Effective Date, and (B) to Seller's actual knowledge, neither Seller nor any of the other party is in material default under the Operating Agreements;

(viii) Seller's sale of the Property to Purchaser will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code with respect to any "plan assets" in Seller's general account, by reason of the application of Prohibited Transaction Class Exemption 95-60;

(ix) Seller is not a person or entity with whom U.S. persons are restricted from doing business under the regulations of the Office of Foreign Assets Control ("OFAC") of the Department of Treasury (e.g. OFAC's Specially Designated and Blocked Persons list), Executive Order Number 13224 on Terrorism Financing, effective September 24, 2001 ("Executive Order 13224"), or the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, H.R. 3162, Public Law 107-56 ("USA Patriot Act");

(x) To Seller's knowledge, the only lease affecting the Property as of the Effective Date is the Lease dated as of January 30, 1998 with Purchaser as tenant and Seller's predecessor in interest as landlord, as amended (collectively, the "Lease"). Seller shall not enter into any new lease affecting the Property, without obtaining the prior written consent of Purchaser, which may be granted or withheld in Purchaser's reasonable judgment. No commissions to any broker or leasing agent are due or will become due on account of the Lease;

(xi) To Seller's Actual Knowledge: (A) Seller has received no notice that the Property is in violation of any federal, state or local law, ordinance or regulation including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act U.S.C. Section 9601 et. seq.; (B) Seller has received no notice that the Property has any adverse geological conditions, including, without limitation, subsidence, subsurface conditions, water table, underground water reservoirs, or limitations regarding the withdrawal of water therefrom, or faulting; (C) Seller has received no notice that the Property has any drainage or soil conditions that have caused any water damage to the building or parking facilities currently located on the Property; (D) the utility equipment, facilities and services necessary for the operation of the Property as it is now being operated, are installed and connected pursuant to valid permits, are adequate to service the Property, and are in good operating condition and no fact or condition exists that would or could result in the termination or impairment of the furnishing of such services; (E) there is vehicular and pedestrian access to and from the Property and a public right of way; (F) prior to the Closing Date, payment in full will have been made for all labor, materials, machinery, fixtures or tools furnished within the 120 days immediately preceding the Closing Date in connection with construction, alteration or repair of any structure on or improvement to the Property; and (G) Seller has not received any written notice from any governmental authority as to violation of any law, ordinance, or regulation, and Seller has not received any written notice from any person or authority with respect to any restrictive covenants burdening the Property as to a breach of such covenants;

(xii) There are no employees of the Property or Seller who will become employees of Purchaser or for which Purchaser shall be responsible in any way;

(xiii) Seller now has in force casualty and liability insurance relating to the Property. Seller has received no notice from any insurance carrier, nor is Seller aware of, any defects or inadequacies in the Property that, if not corrected, would result in termination of insurance coverage or increase in the normal and customary cost thereof;

(xiv) There is not now pending, and Seller agrees that it will not, without the prior written consent of Purchaser, institute prior to the Closing Date, any proceeding or application for a reduction in the real estate tax assessment of the Property or any other relief for any tax year. There are no outstanding agreements with attorneys or consultants with respect to the real estate taxes on the Property that will be binding on Purchaser or the Property after the Closing; and

(xv) The sale of the Property is not subject to, and does not subject Purchaser to, any liability under any federal, state or local withholding obligation of Purchaser under the tax laws applicable to Seller or the Property.

Seller shall fully disclose to Purchaser, promptly following Seller's Actual Knowledge of its occurrence, of any change in facts or circumstances prior to the Closing Date that may materially affect the representations and warranties set forth above. Notwithstanding anything to the contrary contained herein, if any of the representations and warranties made by Seller in this Section 5.01 are not accurate in any material respect as of the Closing for any reason other than the intentional breach of this Agreement by Seller, then Purchaser may, as its sole and exclusive remedy, either terminate this Agreement by giving written notice to Seller, in which case the Deposit shall be immediately refunded to Purchaser, or proceed with the Closing, in which case such representations and warranties shall be deemed waived; provided (i) Purchaser shall not have the right to terminate this Agreement pursuant to this section as a result of any casualty or condemnation affecting the Property, it being agreed that ARTICLE IX shall govern when Purchaser may terminate this Agreement as a result of the same, and (ii) Purchaser shall not have the right to terminate this Agreement pursuant to this section as a result of any matter discovered by Purchaser during the Investigation Period or disclosed in the Submission Items delivered to Purchaser, it being agreed that ARTICLE III shall govern when Purchaser may terminate this Agreement as a result of the same. If Purchaser is aware of any default under or breach of this Agreement or the other Transaction Documents by Seller (or the state of facts or other matters giving rise to any such default or breach) prior to Closing, or such default or breach (or the state of facts or other matters giving rise to any such default or breach) was disclosed in the Submission Items, then Purchaser shall be deemed to have waived such default or breach and any claims that Purchaser may have as a result such default or breach (or the state of facts or other matters giving rise to any such default or breach) should Purchaser purchase the Property pursuant to this Agreement.

5.02 Purchaser Representations and Warranties. Purchaser represents and warrants to Seller as of the Effective Date and as of the Closing:

(i) (A) Purchaser is a corporation, duly organized, validly existing and in good standing under the laws of the state of its formation, (B) to the extent required by law, Purchaser is, or will be by Closing, duly qualified to do business in the State where the Property is located, (C) Purchaser has all power and authority necessary for it to execute and deliver this Agreement and perform its obligations hereunder, and (D) the execution, delivery and performance of this Agreement by Purchaser does not conflict with or constitute a breach of any contract, agreement or other instrument by which Purchaser is bound;

(ii) (A) the execution and delivery of this Agreement by Purchaser and Purchaser's performance of its obligations under this Agreement does not conflict with or result in a breach of any order, judgment, writ, injunction or decree of any court, arbiter or governmental instrumentality in any action to which Purchaser is a party as of the Effective Date, and (B) this Agreement and any documents executed by Purchaser pursuant to this Agreement are binding and enforceable against Purchaser;

(iii) Purchaser is not a party to any pending lawsuits or governmental proceedings that could have a material adverse effect on Purchaser's ability to perform its obligations under this Agreement;

(iv) Purchaser has not (A) filed any voluntary petition in bankruptcy or sought to reorganize its affairs under the Bankruptcy Code of the United States or any other federal, state or local law related to bankruptcy, insolvency or relief for debtors, (B) been adjudicated as bankrupt or insolvent, or (C) had an involuntary petition filed against it under the Bankruptcy Code of the United States or any other federal, state or local law related to bankruptcy, insolvency or relief for debtors;

(v) (A) Purchaser's purchase of the Property from Seller pursuant to this Agreement will not involve any transaction which is subject to the prohibitions of Section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under Section 502(i) of ERISA or a tax could be imposed pursuant to Section 4975 of the Internal Revenue Code, and (B) Purchaser is not and will not be at anytime prior to Closing a "party in interest" in any plan as defined under ERISA Section 3(14);

(vi) Purchaser's source of funds for the acquisition of the Property will not involve any amounts that violate or would be subject to seizure under 18 U.S.C. §§1956-1957 (Laundering of Money Instruments), 18 U.S.C. §§ 981-986 (Federal Asset Forfeiture), 21 U.S.C. § 881 (Drug Property Seizure), Executive Order 13224, or the USA Patriot Act; and

(vii) (A) neither Purchaser nor any of its Affiliates nor any person or entity owning an interest in either of them is a person or entity with whom U.S. persons are restricted from doing business under legal requirements, including, without limitation, the regulations of the OFAC of the Department of Treasury (e.g. OFAC's Specially Designated and Blocked Persons list), Executive Order 13224 or the USA Patriot Act, and (B) prior to Closing, Purchaser will submit all information reasonably requested by Seller in order for Seller to confirm the foregoing.

5.03 Survival. The representations and warranties of the parties in ARTICLE V shall survive the Closing or termination of this Agreement for a period of twelve (12) months.

ARTICLE VI DISCLOSURES & DISCLAIMERS

6.01 "As Is-Where Is" Sale. Except for the representations, warranties, guarantees and assurances expressly set forth in the Transaction Documents, Purchaser acknowledges and agrees that Seller has not made, is not making and specifically disclaims and negates any warranties, representations, guarantees or assurances (express or implied) regarding the Property, the Surviving Operating Agreements or the Warranties, including, but not limited to, warranties, representations, guarantees and assurances regarding (i) the existence of any Hazardous Substances on, under or about the Property, (ii) the environmental condition of the Property, (iii) the quality, nature, adequacy or physical condition of the Property, (iv) the quality, nature, adequacy or condition of the soils and groundwater at the Property, (v) the existence, quality, nature, adequacy or condition of any utilities at or near the Property, (vi) the current or future income or expenses of the Property, (vii) the value, profitability, habitability, suitability, merchantability, marketability or fitness for a particular purpose of the Property, (viii) the zoning or other legal status of the Property, (ix) the existence of any pending or threatened taking of all or a portion of the Property by condemnation or eminent domain, (x) the Property's compliance with any Legal Requirements or any covenant, condition, restriction or other encumbrance, or (xi) the condition of title to the Property or the nature, status or extent of any easement, right of way, encumbrance, license, reservation or other matter affecting title to the Property. Purchaser further acknowledges and agrees that it is purchasing the Property "As-Is, Where-Is" with all faults and all latent or patent defects. Notwithstanding the foregoing, Purchaser's disclaimer of and agreement to negate warranties, representations, guarantees and assurances regarding the Property shall not be effective with respect to such warranties, representations, guarantees and assurances under the Lease unless and until the Purchaser and the Seller consummate the Closing.

Except for claims based on Seller's breach of the Transaction Documents, as of the Closing, Purchaser, on behalf of itself and its successors and assigns, shall be deemed to have waived, released and discharged Seller from all claims that Purchaser or its successors or assigns has or may have against Seller relating to the Property, whether known or unknown, existing or arising in the future,

including, not limited to, claims arising or resulting from (i) statements or opinions made by Seller or any of its agents, employees, property managers, contractors or representatives, (ii) the physical or financial condition of the Property, or (iii) the existence of any Hazardous Substances on, under or about the Property or the environmental condition of the Property. It is expressly acknowledged and agreed that Purchaser, on behalf of itself and its successors and assigns, is waiving, releasing and discharging all claims for contribution or indemnity that Purchaser or its successors and assigns has or may have against Seller, whether known or unknown, existing or arising in the future, based, in whole or in part, upon the presence on or discharge from the Property of Hazardous Substances or other environmental contamination, including without limitation, claims that may arise under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended 42 U.S.C. § 9601 et seq.

The provisions of this Section shall survive the Closing and delivery of the Deed.

6.02 Radon Gas. Seller hereby discloses to Purchaser that:

Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed Federal and State guidelines have been found in buildings in the state where the Property is located. Additional information regarding radon and radon testing may be obtained from your county public health unit. Seller makes no representation, express or implied, as to the presence or absence of Radon Gas in the improvements or elsewhere on the Property.

ARTICLE VII
CLOSING

7.01 Closing. Subject to the other terms of this Agreement, the Closing shall take place at 10:00 a.m. Eastern Time on the Required Closing Date. The Closing shall be held through the offices of the Escrow Agent or at such other place as may be agreed upon by Purchaser and Seller, in writing.

7.02 Closing Deliveries. At Closing, Seller shall deliver to Purchaser the following documents:

(a) Deed. At the Closing, Seller shall convey all of Seller's right, title and interest in the Real Property to Purchaser, by duly executed and recordable special warranty deed in the form attached hereto as **Schedule 7.02-A** (the "Deed"), subject to the Permitted Exceptions.

(b) Bill of Sale. At Closing, Seller shall convey all of Seller's right, title and interest in the Personal Property to Purchaser, by a duly executed bill of sale in the form attached hereto as **Schedule 7.02-B**.

(c) Assignment of Surviving Operating Agreements. At Closing, Seller and Purchaser shall enter into an agreement, in the form attached hereto as **Schedule 7.02-D**, under which (i) Seller assigns all of its right, title and interest in the Surviving Operating Agreements, if any, to Purchaser and (ii) Purchaser assumes all of Seller's obligations under the Surviving Operating Agreements to the extent such obligations arise from and after the Closing.

(d) Assignment of Warranties. At Closing, Seller shall assign to Purchaser all of the Warranties, by a duly executed agreement in the form attached hereto as **Schedule 7.02-E**.

(e) Owner's Affidavit. At Closing, Seller shall execute and deliver to Purchaser and the Escrow Agent an owner's affidavit in the form attached hereto as **Schedule 7.02-F**.

(f) 1445 Certificate. At Closing, Seller shall execute and deliver to Purchaser (i) a properly completed certificate stating that Seller is not a "foreign person" as defined in Section 1445 of the Internal Revenue Code and the regulations thereunder, and (ii) such other documents as may be required by the Internal Revenue Code (or regulations promulgated pursuant thereto) in connection with the sale of the Property to Purchaser.

(g) ERISA Certificate. At Closing, Purchaser shall deliver to Seller an ERISA Certificate in the form attached hereto as **Schedule 7.02-G**.

(h) Seller's Certificate. At Closing, Seller shall deliver to Purchaser a certificate in the form attached hereto as **Schedule 7.02-H**, pursuant to which Seller remakes each of the representations and warranties set forth in Section 5.01 as of the Closing Date or Seller discloses the matters that to Seller's Actual Knowledge render such representations and warranties untrue as of the Closing.

(i) Closing Statement. At Closing, Seller and Purchaser shall execute a written statement for the Property that sets forth the Purchase Price, any credits against the Purchase Price provided for in this Agreement, all amounts prorated between the parties pursuant to this Agreement, and all disbursements to be made at Closing on behalf of Seller or Purchaser.

(j) Seller shall also deliver:

(i) All keys and access cards to, and combinations to locks and other security devices located at, the Property, if applicable, to the extent in Seller's possession or control.

(ii) If the Property is not presently one or more complete, separately platted parcels and state or local law requires that a subdivision or resubdivision plat be filed as a condition to the conveyance of the Property, then at or before Closing, Seller shall cause a plat of subdivision or resubdivision for the Property to be prepared by the surveyor, approved by all necessary governmental bodies and authorities, and recorded against the Property. Any such plat of subdivision or resubdivision (including, without limitation, all easements, restrictions and encumbrances granted thereby or set forth thereon) shall be subject to Purchaser's prior, written approval, which approval may be granted or withheld in its sole discretion.

(iii) Such resolutions and certificates as may be reasonably required by Purchaser or the Title Company to verify Seller's valid and binding authority to sell the Property and otherwise consummate the transactions contemplated by this Agreement.

(iv) All plans and specifications concerning the Property in Seller's possession and control.

(v) Copies of receipts of the brokers of payment of any fees due them, if any.

(vi) If the Property is part of a larger tax parcel, a tax division petition in proper form for filing with the applicable authorities.

(vii) To the extent available, all original Operating Agreements.

7.03 Conditions to Closing.

(a) Purchaser Closing Conditions. Purchaser's obligation to consummate the transaction contemplated by this Agreement is contingent upon all of the following conditions (the "Purchaser Closing Conditions") being satisfied as of the date and time the Closing is scheduled to take place under Section 7.01:

(i) Seller not being in default under this Agreement, and all of the representations and warranties made by Seller in this Agreement being true, accurate and complete in all material respects; and

(ii) Seller executing and delivering all of the documents required under Section 7.02; and

(iii) There being no material adverse change in the physical condition of the Property that occurred after the Investigation Period, excluding (A) any change caused by Purchaser or its contractors, employees, or affiliates, and (B) any damage caused by fire or other casualty or any taking by condemnation, it being agreed that ARTICLE IX shall govern the same.

If any one of the Purchaser Closing Conditions is not satisfied as of the date and time the Closing is scheduled to occur, then Purchaser may: (i) terminate this Agreement by written notice to Seller, in which case the Deposit shall be immediately refunded to Purchaser; or (ii) waive such Purchaser Closing Conditions and proceed with the Closing. Nothing herein shall limit the remedies available to Purchaser as a result of Seller's default under this Agreement.

(b) Seller Closing Conditions. Seller's obligation to consummate the transaction contemplated by this Agreement is contingent upon all of the following conditions (the "Seller Closing Conditions") being satisfied as of the date and time the Closing is scheduled to take place under Section 7.01:

(i) Purchaser not being in default under this Agreement, and all of the representations and warranties made by Purchaser in this Agreement being true, accurate and complete in all material respects; and

(ii) Seller's receipt of the Purchase Price from Purchaser, subject to the prorations, credits and adjustments expressly provided for in this Agreement; and

(iii) Purchaser executing and delivering all of the documents required under Section 7.02.

If any one of the Seller Closing Conditions is not satisfied as of the date and time the Closing is scheduled to occur, then Seller may: (i) terminate this Agreement by written notice to Purchaser, in which case the Deposit shall be paid to Seller pursuant to the Deposit Escrow; or (ii) waive such Seller Closing Conditions and proceed with the Closing. Nothing herein shall limit the remedies available to Seller as a result of Purchaser's default under this Agreement.

7.04 Closing Costs.

(a) Seller Closing Costs. At Closing, Seller shall pay: (i) fifty percent (50%) of the fees charged by the Escrow Agent to hold the Deposit and coordinate the Closing; (ii) the premium for the Owner's Title Policy, excluding the cost of extended coverage under the Owner's Title Policy and the cost of any

endorsements to the Owner's Title Policy requested by Purchaser or its lender; and (iii) all state and county transfer taxes, documentary stamps, intangible taxes and surtaxes due in connection with the transfer of the Property to Purchaser.

(b) Purchaser Closing Costs. At Closing, Purchaser shall pay: (i) fifty percent (50%) of any fees charged by the Escrow Agent to hold the Deposit and coordinate the Closing; (ii) the cost of obtaining extended coverage under the Owner's Title Policy and the cost of any endorsements to the Owner's Title Policy requested by Purchaser or its lender; and (iii) all recording charges and other similar fees due in connection with the transfer of the Property to Purchaser and the recording of the documents described in Section 7.02.

(c) Other Costs. Except as otherwise expressly provided herein, Seller and Purchaser shall each be responsible for paying the attorneys' fees that it incurs in connection with the transaction contemplated by this Agreement. In addition, Purchaser shall pay, prior to delinquency, all expenses incurred by Purchaser in connection with its due diligence with respect to the Property (including, but not limited to, the cost of physical inspections, surveys, environmental assessments, zoning and permits reviews), and any financing obtained by Purchaser in connection with its acquisition of the Property.

ARTICLE VIII PRORATIONS

8.01 Calculation. All prorations to be made under this section "as of the Closing Date" shall be made as of 11:59 P.M. local time on day immediately preceding the Closing Date, with the effect that Seller shall pay the portions of the expenses and receive the portions of the income to be prorated under this Agreement which are allocable to periods prior to the Closing Date and Purchaser shall pay the portions of such expenses and receive the portions of such income which are allocable to periods from and after the Closing Date.

8.02 Property Taxes.

(a) Current Tax Period. Property Taxes for the Current Tax Period shall be prorated between Seller and Purchaser as of the Closing Date and paid at Closing, if possible. If the Property Taxes for the Current Tax Period have been paid by Seller at the time of Closing, Seller shall receive a credit for Purchaser's share of such Property Taxes. If the Property Taxes for the Current Tax Period are not paid at or prior to Closing, then Purchaser shall receive a credit against the Purchase Price equal to Seller's share thereof. In the event Purchaser receives a credit against the Purchase Price to cover Seller's share of any Property Tax, Purchaser shall be responsible for paying such Property Tax to the proper taxing authority prior to delinquency.

(b) Contest of Prior Periods. Seller shall have the right to all refunds or rebates resulting from contests or appeals of any Property Taxes with respect to the years prior to the Current Tax Period, subject to Seller's obligation to reimburse Tenants for any rebates or refunds to which Tenants may be entitled under the Leases. Seller may, at its option, contest or appeal any portion of the Property Taxes for the Current Tax Year, and the parties agree to prorate all refunds or rebates received on account thereof, based upon each parties' period of ownership of such Property during the Current Tax Year. Purchaser agrees to cooperate and assist with any contest or appeal by Seller of the Property Taxes, so long as Purchaser is not required to incur any costs or expenses in connection therewith.

8.03 Utilities. Seller shall pay, when due, all charges for utilities furnished to the Property prior to the Closing under any account maintained in Seller's name, and Seller shall be entitled to retain any utility deposits made by Seller which are refundable. Purchaser shall be responsible for making arrangements for the continuation of such utilities to the Property on the Closing Date or within three (3) Business Days thereof.

8.04 Operating Agreements. Seller shall be responsible for paying all amounts that it owes under the Operating Agreements, except amounts Seller owes under the Surviving Operating Agreements shall be prorated between Seller and Purchaser as of the Closing Date.

8.05 Unknown Amounts. In the event any amount to be prorated between the parties or credited to either of the parties under the terms of this ARTICLE VIII is not known with certainty as of the Closing, the parties shall use an estimate of such amount at the Closing. If more current information is not available, such estimates shall be based upon the prior operating history of the Property and the most recent prior bills. As such estimated amounts become finally known, Seller and Purchaser shall make any payments necessary to cause Seller and Purchaser to pay the amounts it is responsible for under this ARTICLE VIII, but no more. Seller and Purchaser agree to cooperate and use reasonable efforts to finalize the prorations or adjustments required under this ARTICLE VIII that cannot be completed as of the Closing no later than sixty (60) days after the Closing, if possible.

8.06 Survival. The provisions of this ARTICLE VIII shall survive the Closing.

ARTICLE IX DAMAGE AND CONDEMNATION

9.01 Casualty.

(a) Until Closing, Seller agrees to maintain its existing property insurance covering the Property (the "Property Insurance"). If the Property is damaged by fire or other casualty which is not caused by the Purchaser or its agents prior to Closing and the cost to repair such damage exceeds Three Hundred Thousand and No/100 Dollars (\$300,000.00), then Purchaser may terminate this Agreement by giving written notice to Seller within thirty (30) days after the fire or casualty, in which event the Deposit shall be immediately refunded to Purchaser.

(b) Unless this agreement is terminated pursuant to Section 3.03 or Section 9.01(a), if the Property is damaged by fire or other casualty prior to Closing, then Seller may, at its option, either: (i) repair the damaged areas, excluding damage to be repaired by tenants under the terms of the Leases, and the Closing shall be postponed until the date that is five (5) business days after such restoration is completed; or (ii) proceed with the Closing without a reduction in the Purchase Price, in which case Seller shall pay Purchaser, at Closing, an amount equal to insurance proceeds received by Seller on account of such damage under the Property Insurance, assign to Purchaser all insurance proceeds payable (but not yet paid) to Seller as a result of such casualty loss under the Property Insurance, and credit to Purchaser an amount equal to the deductible (if any) under the Property Insurance. Seller shall be entitled to retain all proceeds paid as a result of any damage to the Property under Seller's rental loss insurance and business interruption insurance. Seller shall bear the risk of loss or damage to the Property until the Closing.

9.02 Condemnation. If there is an actual or pending taking of the Property by condemnation or eminent domain prior to Closing (a "Taking") that will prevent or materially impair the operation of the Property, as presently operated, then Purchaser may terminate this Agreement by giving written notice to Seller prior to Closing, in which event the Deposit shall be immediately refunded to Purchaser. If there is a Taking prior to Closing and this Agreement is not so terminated, then, at Closing, Seller shall pay Purchaser any condemnation awards received by Seller on account of such Taking except condemnation awards payable to the Tenants under the Leases, and Seller shall assign all of its interest in any unpaid condemnation awards due

as a result of such Taking to Purchaser. Seller shall not reach any settlement or agreement related to any Taking after the Effective Date, unless Purchaser consents thereto, in writing, which consent shall not be unreasonably withheld, qualified or delayed. In no event shall the Purchase Price be reduced as a result of any Taking.

ARTICLE X
DEFAULT

10.01 **Failure to Sell.** If Seller breaches this Agreement by failing to sell the Property to Purchaser and Seller does not cure such breach within five (5) days after it is notified of the same by Purchaser, in writing, then Purchaser may, as its sole and exclusive remedy, either: (i) obtain specific performance of this Agreement; or (ii) terminate this Agreement, receive a return of the Deposit, and recover an amount equal to the out-of-pocket expenses incurred by Purchaser in connection with its inspection of the Property, not to exceed Seventy Five Thousand and No/100 US Dollars (US \$75,000.00). In the event Purchaser desires to bring an action for specific performance of this Agreement, Purchaser must commence such action within sixty (60) days after the date the Closing was supposed to occur. Purchaser's failure to commence an action for specific performance within the period required under this section shall constitute an irrevocable waiver of its right to bring the same.

10.02 **Failure to Purchase.** If Purchaser breaches this Agreement by failing to purchase the Property and Purchaser does not cure such breach within five (5) days after it is notified of the same by Seller, in writing, then Seller may, as its sole and exclusive remedy, terminate this Agreement and receive the Deposit as full and agreed upon liquidated damages. Purchaser and Seller agree that said liquidated damages are reasonable given the circumstances now existing, including, but not limited to, the range of harm to Seller that is reasonably foreseeable and the anticipation that proof of Seller's actual damages would be costly, impractical and inconvenient.

10.03 **Other Defaults.** Except as otherwise provided in Sections 10.01 and 10.02, if Seller or Purchaser breaches any of the terms of this Agreement and does not cure such breach within thirty (30) days after it is notified of the same by the non-breaching party, in writing, then the non-breaching party shall have the right to obtain any remedy available at law or in equity, including, but not limited to, the right to recover the damages that it suffers or incurs on account of the breach. Notwithstanding anything to the contrary, in no event shall either party be liable for consequential, incidental, exemplary or punitive damages as a result of its breach of this Agreement. Seller shall have no liability to Purchaser as a result of any default by Seller under this Agreement in excess of Seventy-five Thousand Dollars (\$75,000.00). Purchaser agrees to first seek available recovery from other sources (including, without limitation, insurance policies, service contracts, estoppels certificates and the Leases) prior to seeking recovery from Seller, and Seller shall not be liable to Purchaser if Purchaser's claim is satisfied from such other sources. The remedies expressly set forth in this section shall be the only remedies available to Purchaser as a result of Seller's default under or breach of any of the Transaction Documents.

ARTICLE XI
MISCELLANEOUS

11.01 **Notices.** All notices, consents, approvals, deliveries and other communications (collectively, "Notices") which may be or are required to be given by either Seller or Purchaser under this Agreement shall be properly given only if made in writing and sent by hand delivery, U.S. Certified Mail, Return Receipt Requested, facsimile, or nationally recognized overnight delivery service (such as Federal Express or UPS), with all delivery charges paid by the sender and addressed to the Purchaser or Seller, as applicable, as follows:

If to Seller:	Jefferson-Pilot Investments, Inc. 100 North Greene Street Greensboro, NC 27401 Attn: Nicholas Heinzelman Telephone: (336) 691-4316 (E-mail for reference only: Nicholas.Heinzelmann@lfg.com)
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with copy to: Daniel J. Minor
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
(E-mail for reference only: djminor@vorys.com)

If to Purchaser: KVH Industries, Inc.
50 Enterprise Drive
Middletown, RI 02842-5279
Attn: Felise Feingold
Telephone: (401) 845-8148
Email for reference only: ffeingold@kvh.com)

with copy to: Jay A. Gitles
Seyfarth Shaw LLP
131 South Dearborn Street, Suite 2400
Chicago, IL 60603
Telephone: (312) 460-5937
Facsimile: (312) 460-7937
(Email for reference only: jgitles@seyfarth.com)

If to Escrow Agent: First American Title Insurance Company
30 North LaSalle Street, Suite 2700
Chicago, IL 60602
Telephone: 312-917-7246
Facsimile: 888-279-8547

Either party may change its address for Notices by giving written notice to the other party in accordance with this provision. Notices shall be deemed received: (i) if delivered by hand, on the date of delivery; (ii) if sent by U.S. Mail or overnight delivery service, on the date the same is deposited with the applicable carrier; and (iii) if sent facsimile, on the date of transmission with computer confirmation of successful delivery without errors.

11.02 Brokers. Except for Podolsky Northstar Realty Partners, LLC (“Seller’s Broker”) and CB Richard Ellis, Inc. who shall share equally a commission equal to 5% of the purchase price pursuant to a

separate agreement, Seller and Purchaser each represents and warrants to the other that it has not dealt with any broker, brokerage firm, listing agent or finder in connection with the transaction contemplated by this Agreement, and each party hereto agrees to indemnify, defend and hold harmless the other party from and against any claims for a commission or other compensation made by a broker, brokerage firm, listing agent or finder with whom it has dealt or allegedly dealt. Purchaser acknowledges that Seller's Broker is exclusively representing Seller and has no duties to Purchaser in connection with the transaction contemplated by this Agreement. The provisions of this section shall survive the termination of this Agreement or the Closing, as applicable.

11.03 Assignment & Successors. Purchaser may assign this Agreement to an Affiliate of Purchaser, without obtaining Seller's consent or approval; provided, however, Purchaser shall remain primarily responsible for the satisfaction of its obligations and liabilities under this Agreement and such responsibility shall not be limited, affected, diminished or discharged by any event. Except as otherwise expressly provided herein, Purchaser shall not have the right to assign this Agreement, unless it obtains the prior written consent of Seller; provided no such assignment shall release Purchaser from its obligations and liabilities hereunder. The terms of this Agreement shall be binding on Seller, Purchaser and their respective successors-in-interest. An assignment of this Agreement by Purchaser shall be deemed to have occurred if in a single transaction or in a series of transactions the ownership interests (whether stock, partnership interests, membership interests or other) of Purchaser are transferred, diluted, reduced or otherwise affected with the result that the present owners have less than a 51% ownership interest in Purchaser or cease to control the management and operation of Purchaser. If Purchaser assigns this Agreement to any Entity, Purchaser shall cause such Entity to assume all of Purchaser's obligations and liabilities under this Agreement for the benefit of Seller, by a duly executed assignment and assumption agreement in form and substance reasonably acceptable to Seller, which agreement must be provided to Seller at least five (5) Business Days prior to the Closing.

11.04 Entire Agreement. This Agreement contains the final, complete and entire agreement of Seller and Purchaser with respect to the matters contained herein, and no prior agreement or understanding pertaining to such matters shall be effective for any purpose. This Agreement may only be amended by a written instrument signed by Purchaser and Seller.

11.05 No Offer. The submission of this Agreement by Seller shall not constitute an offer, and this Agreement shall become effective and binding only after it is executed and delivered by both Seller and Purchaser. Furthermore, copies of this Agreement that have not been executed and delivered by both Seller and Purchaser shall not serve as a memorandum or other writing evidencing an agreement between the parties.

11.06 Interpretation. FOR PURPOSES OF THIS AGREEMENT, TIME SHALL BE CONSIDERED OF THE ESSENCE. The titles, captions and section headings in this Agreement are for convenience only and shall not define, limit or expand the scope of any provision hereof. Seller and Purchaser have agreed to the particular language of this Agreement, and any question regarding its meaning shall not be resolved by any rule providing for interpretation against the party who caused the uncertainty to exist or against the draftsman. In the event any words or phrases in this Agreement are stricken out or otherwise eliminated, whether or not any other words or phrases are added in their place, this Agreement shall be construed as though such words or phrases were never included herein and no inference shall be drawn therefrom. Unless the context indicates otherwise, (i) the terms "hereof", "hereunder" and "herein" refer to this Agreement as a whole, (ii) the singular includes the plural and the masculine gender includes the feminine and neuter, and (iii) all references to articles, sections and subsections refer to the articles, sections and subsections of this Agreement.

11.07 Counterparts. This Agreement may be executed in separate counterparts. It shall be fully executed when each party whose signature is required has signed at least one (1) counterpart even though no one (1) counterpart contains the signatures of all of the parties to this Agreement.

11.08 Delivery. Seller and Purchaser agree that executed copies of this Agreement may be delivered by facsimile or email (in PDF format), and the same shall have the same validity as if they were delivered in person.

11.09 Non-waiver. No waiver of any provision of this Agreement shall be deemed to have been made unless it is expressed in writing and signed by the party charged with making the waiver. No delay or omission in the exercise of any right or remedy accruing upon a breach of this Agreement shall impair such right or remedy or be construed as a waiver of such breach. The waiver of any breach of this Agreement shall not be deemed to be a waiver of any other breach hereof.

11.10 Severability. This Agreement is intended to be performed in accordance with and only to the extent permitted by applicable law. If any provision of this Agreement is invalid or unenforceable, the remainder of this Agreement shall not be affected thereby.

11.11 Schedules/Exhibits. Purchaser and Seller acknowledge and agree that all schedules and exhibits referenced in this Agreement are attached hereto and incorporated herein by reference.

11.12 Attorneys' Fees. The prevailing party in any legal proceeding related to this Agreement shall be entitled to recover the reasonable court costs, litigation expenses and attorneys' fees that it incurs in connection with such legal proceeding from the non-prevailing party therein.

11.13 Business Days. If any date specified in this Agreement for the performance of an obligation, the delivery of an item, the giving of a notice or the expiration of a time period falls on a day other than a Business Day, then this Agreement shall be automatically revised so that such date falls on the next occurring Business Day.

11.14 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Illinois.

11.15 Waiver of Jury Trial. Seller and Purchaser hereby expressly waive their right to a trial by jury of any claim (i) arising under the Transaction Documents, or (ii) connected with or related to the transaction contemplated by this Agreement, whether now existing or hereafter arising. Seller or Purchaser may file an original or a copy of this section with any court as written evidence of the foregoing waiver.

11.16 Venue. Proper venue for any action arising under or relating to any of the Transaction Documents or the transaction contemplated therein shall be in the federal and state courts having jurisdiction over Tinley Park, Illinois. Seller and Purchaser consent to such courts having personal jurisdiction and waive whatever rights they have to be sued elsewhere.

11.17 Period for Actions. To the maximum extent permitted under Legal Requirements, all claims and causes of action arising under any of the Transaction Documents or in connection with the transaction contemplated herein shall be brought prior to the earlier of the expiration of the applicable statute of limitations or two (2) years after the Closing Date; except claims and causes of action based on a breach of any of the representations and warranties set forth in ARTICLE V, which must be commenced within the period provided therein and an action for specific performance under Section 10.01, which must be commenced within the time period provided therein.

IN WITNESS WHEREOF, Seller and Purchaser have executed this Purchase and Sale Agreement as of the date appearing below their signatures on this page.

SELLER:

JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation

By: /s/ Nicholas R. Heinzelmann

Name: Nicholas R. Heinzelmann

Title: Assistant Vice President

Date: August __, 2010

Tax Identification Number: _____

PURCHASER:

KVH INDUSTRIES, INC., a Delaware corporation

By: /s/ Patrick Spratt

Name: Patrick Spratt

Title: Chief Financial and Accounting Officer

Date: August __, 2010

Tax Identification Number: _____

DESCRIPTION OF THE PROPERTY

PARCEL 1

LOT 14 IN TINLEY CROSSINGS CORPORATE CENTER UNIT 1, BEING A SUBDIVISION OF PART OF THE NORTH 1/2 OF SECTION 2, TOWNSHIP 35 NORTH, RANGE 12 EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED OCTOBER 16, 1998, AS DOCUMENT NUMBER R98-122885, IN WILL COUNTY, ILLINOIS.

PARCEL 2

EASEMENT FOR THE BENEFIT OF PARCEL 1 FOR INGRESS AND EGRESS OF PEDESTRIAN AND VEHICULAR TRAFFIC OVER AND ACROSS THE EAST 15 FEET OF LOT 13A IN AFORESAID SUBDIVISION AS CREATED BY DECLARATION OF EASEMENT DATED APRIL 13, 2005 AND RECORDED AS DOCUMENT R2005060765 IN WILL COUNTY, ILLINOIS.

SCHEDULE 1.01(xxvi)

SUBMISSION ITEMS

To the extent that such items are in Seller's possession and control, Seller shall deliver to Purchaser in accordance with Section 3.02, the following:

1. Any as-built surveys of the Real Property.
2. Any existing Warranties.
3. Existing Title Policies for the Real Property.
4. Environmental and physical inspection reports relating to the Property (for informational purposes only).
5. Operating Agreements, including any property management agreement.
6. Pleadings and other documents relating to any litigation, condemnation or other proceedings affecting the Property to which Seller is a party.
7. Plans (including site plans, building plans and specifications concerning the Property).
8. Permits (including certificates of occupancy), approvals, and licenses concerning the Property.
9. Tenant common area maintenance reconciliation documents for 2010 concerning the Property.
10. Real estate tax bills for 2008 and 2009.

SCHEDULE 5.01-A

LIST OF PENDING CONDEMNATION ACTIONS

NONE

SCHEDULE 5.01-B

LIST OF PENDING LITIGATION

NONE

SCHEDULE 5.01-E

LIST OF OPERATING AGREEMENTS

1. Work Authorization dated March 19, 2010 between Podolsky Northstar Realty Partners, L.L.C. and The Brickman Group, LTD for lanscape maintenance from April 1, 2010 to November 30, 2010.
2. Wireless Fire Alarm Equipment Lease and Signal Monitoring Agreement between Randy D. Podolsky, as Receiver, and the Village of Tinley Park, Illinois.

DEED

This instrument prepared by:

After recording, return to:

Future taxes to:

JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation ("Grantor"), for and in consideration of One Dollar and other good and valuable consideration, the receipt of which is hereby acknowledged, REMISES and CONVEYS to KVH INDUSTRIES, INC., a Delaware corporation ("Grantee"), all interest in the real estate situated in the County of Will, State of Illinois and further described on Exhibit A attached hereto and made a part hereof by this reference.

Permanent Index Nos.: _____

Address of Real Property: 8412 W. 185th Street, Tinley Park, IL 60477

Grantor does covenant, promise and agree to and with Grantee, and successors, that it has not done or suffered to be done, anything whereby the said premises hereby granted are, or may be, in any manner encumbered or charged by its actions, except as herein recited; and that it will warrant and defend, the said premises against all persons lawfully claiming, or to claim the same, by, through and under it.

Dated this __ day of _____, 2010.

JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation

By: _____
Name: Nicholas R. Heinzelmann
Title: Assistant Vice President

SCHEDULE 7.02-B

BILL OF SALE

THIS BILL OF SALE (the "Bill of Sale") is executed and delivered as of the __ day of _____, 2010 (the "Effective Date"), by JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation ("Seller"), to and in favor of KVH INDUSTRIES, INC., a Delaware corporation ("Purchaser").

WITNESSETH:

WHEREAS, Seller and Purchaser previously entered into that certain Purchase and Sale Agreement dated _____ (the "Sale Agreement"); and

WHEREAS, simultaneously with the execution of this Bill of Sale, Seller and Purchaser are consummating the transaction contemplated by the Sale Agreement; and

WHEREAS, Seller is required to enter into this Bill of Sale at Closing.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. For purposes of this Bill of Sale, including, but not limited to, the foregoing recitals, all capitalized terms not defined herein shall have the meaning ascribed to them in the Sale Agreement.

2. Transfer. Seller hereby sells, transfers and conveys the Personal Property to Purchaser. Except as otherwise expressly provided in the Sale Agreement, the Personal Property is being conveyed to Purchaser "AS-IS, WHERE-IS", with all faults and without any representations, warranties, guaranties or assurances whatsoever, express or implied. Accordingly, the provisions of Section 6.01 of the Sale Agreement are incorporated into and shall be a part of this Bill of Sale.

3. Governing Law. This Bill of Sale shall be governed by the laws of the State of iLLINOIS.

4. Binding Effect. This Bill of Sale shall be binding on Purchaser and its successors and assigns and shall inure to the benefit of Purchaser and its successors and assigns.

5. Exhibits. All exhibits referenced in this Bill of Sale are incorporated herein by reference.

IN WITNESS WHEREOF, Seller has caused this Bill of Sale to be executed as of the day and year first above written.

SELLER:

JEFFERSON-PILOT INVESTMENTS, INC., a
North Carolina corporation

By: _____
Name: _____
Title: _____

PURCHASER:

KVH INDUSTRIES, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

SCHEDULE 7.02-D

ASSIGNMENT OF SURVIVING OPERATING AGREEMENTS

THIS ASSIGNMENT (the "Assignment") is made and entered into as of the ____ day of _____, 2010 (the "Effective Date"), by and between JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation ("Assignor") and KVH INDUSTRIES, INC., a Delaware corporation ("Assignee").

WITNESSETH:

WHEREAS, Assignor and Assignee previously entered into that certain Purchase and Sale Agreement dated _____ (the "Sale Agreement"); and

WHEREAS, simultaneously with the execution of this Assignment, Assignor and Assignee are consummating the transaction contemplated by the Sale Agreement; and

WHEREAS, Assignor and Assignee are required to enter into this Assignment at Closing.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. For purposes of this Assignment, including, but not limited to, the foregoing recitals, all capitalized terms not defined herein shall have the meaning ascribed to them in the Sale Agreement.

2. Transfer. Assignor hereby assigns to Assignee, its successors and assigns, all right, title and interest of Assignor in, to and under the Surviving Operating Agreements, which are described on Exhibit A.

3. Assumption. Assignee hereby assumes all of the obligations and duties of Assignor under the Surviving Operating Agreements to the extent such obligations and duties first arise after Effective Date, and Assignee agrees to comply with all of the terms of the Surviving Operating Agreements from and after the Effective Date.

4. Indemnity. Assignor agrees to indemnify, defend (with counsel reasonably satisfactory to Assignee) and hold harmless Assignee for, from and against all third party claims and associated lawsuits, damages, costs and expenses arising out of any uncured default by Assignor under the Surviving Operating Agreements that occurred prior to the Effective Date. Assignee agrees to indemnify, defend (with counsel reasonably acceptable to Assignor) and hold harmless Assignor from and against all third party claims and associated lawsuits, damages, costs and expenses arising out of Assignee's failure to satisfy any of its obligations under or otherwise comply with Section 3 of this Assignment.

5. Governing Law. This Assignment shall be governed by the laws of the State of Illinois.

6. Binding Effect. This Assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

7. Exhibits. The parties acknowledge and agree that all exhibits referenced in this Assignment are attached hereto and incorporated herein by reference.

IN WITNESS WHEREOF, the parties have executed this Assignment as of the day and year first above written.

ASSIGNOR:

JEFFERSON-PILOT INVESTMENTS, INC., a
North Carolina corporation

By: _____

Name: _____

Title: _____

ASSIGNEE:

KVH INDUSTRIES, INC., a Delaware
corporation

By: _____

Name: _____

Title: _____

SCHEDULE 7.02-E

ASSIGNMENT OF WARRANTIES

THIS ASSIGNMENT OF WARRANTIES (the "Assignment") is made and entered into as of the ____ day of _____, 2010 (the "Effective Date"), JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation ("Assignor"), for the benefit of KVH INDUSTRIES, INC., a Delaware corporation ("Assignee").

WITNESSETH:

WHEREAS, Assignor and Assignee previously entered into that certain Purchase and Sale Agreement dated _____ (the "Sale Agreement"); and

WHEREAS, simultaneously with the execution of this Assignment, Assignor and Assignee are consummating the transaction contemplated by the Sale Agreement; and

WHEREAS, Assignor is are required to enter into this Assignment at Closing under the terms of the Sale Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

8. Defined Terms. For purposes of this Assignment, including, but not limited to, the foregoing recitals, all capitalized terms not defined herein shall have the meaning ascribed to them in the Sale Agreement.

9. Transfer. Assignor hereby assigns all of its right, title and interest in the Warranties listed on Exhibit A to Purchaser, but only to the extent the same are assignable. Except as otherwise expressly provided in the Sale Agreement, such Warranties are being conveyed to Purchaser "AS-IS, WHERE-IS", with all faults and without any representations, warranties, guaranties or assurances whatsoever, express or implied. Accordingly, the provisions of Section 6.01 of the Sale Agreement are incorporated into and shall be a part of this Assignment.

10. Governing Law. This Assignment shall be governed by the laws of the State of _____.

11. Binding Effect. This Assignment shall be binding on Purchaser and its successors and assigns and shall inure to the benefit of Purchaser and its successors and assigns.

12. Exhibits. All exhibits referenced in this Assignment are incorporated herein by reference.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment as of the day and year first above written.

ASSIGNOR:

JEFFERSON-PILOT INVESTMENTS, INC., a
North Carolina corporation

By: _____
Name: _____
Title: _____

SCHEDULE 7.02-F

OWNER'S AFFIDAVIT

THIS OWNER'S AFFIDAVIT (the "Affidavit") is entered into as of the ____ day of _____, 2010 (the "Effective Date"), by JEFFERSON-PILOT INVESTMENTS, INC., a North Carolina corporation (the "Owner"), for the benefit of [INSERT NAME OF TITLE COMPANY] (the "Title Company").

WITNESSETH:

WHEREAS, Title Company issued that certain commitment (File No. _____, Dated _____) for an owner's policy of title insurance (the "Commitment") to _____ (the "Buyer"); and

WHEREAS, Owner has agreed to execute this Affidavit in order to cause the Title Company to delete certain exceptions to coverage from the Commitment.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Owner agrees as follows:

13. With respect to that certain real property located in _____ and more particularly described on Exhibit A (the "Property"), Owner certifies to the Title Company that, as of the Effective Date:

(a) There are no tenants or other occupants of the Property claiming by, through or under Owner, except for tenants and occupants described in the Commitment or under the leases, licenses and other agreements described on Exhibit B (collectively, the "Leases").

(b) Owner will cause any mechanic's or materialmen's lien filed against the Property to be released, either by posting a bond or by other means, if such lien is due to Owner's failure to pay for work, services or materials furnished at Owner's request.

(c) Owner has not filed any pending action seeking to reorganize its affairs or have itself declared bankrupt or insolvent under the Bankruptcy Code of the United States or any other federal, state or local law related to bankruptcy, insolvency or relief for debtors.

(d) Owner has not entered into any outstanding contract(s) of sale affecting the Property, except the Purchase and Sale Agreement between Owner and Buyer, the Leases, and matters described in the Commitment or on Exhibit C.

14. For purposes of this Affidavit, the term "actual knowledge" with respect to Owner shall mean the actual knowledge of _____, who shall have no duty to conduct any investigation.

OWNER:

By: _____

Title: _____

SCHEDULE 7.02-G

ERISA CERTIFICATE

KVH INDUSTRIES, INC., a Delaware corporation (“Purchaser”) hereby represents and warrants to JEFFERSON-PILOT INVESTMENTS, INC. (the “Seller”) that the assets that Purchaser is using to purchase the Property are not “plan assets” within the meaning of Department of Labor Regulations Section 2510.3-101. The representations and warranties contained in this ERISA Certificate shall survive Closing. As used herein, “ERISA” means the Employee Retirement Income Security Act of 1974, as amended, an all rules regulations and rulings promulgated pursuant to ERISA and “Code” means the Internal Revenue Code of 1986, as amended. Any capitalized terms used and not defined in this ERISA Certificate shall have the meaning ascribed to them in the Sale Agreement entered into by Purchaser and Seller, dated January __, 2008. This Certificate shall be binding upon the Purchaser and its successors and assigns and shall inure to the benefit of Seller and its successors and assigns.

Executed as of the ____ day of _____, 2010.

PURCHASER:

KVH INDUSTRIES, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

Tax Identification
Number/SSN: _____

SCHEDULE 7.02-H

SELLER'S CLOSING CERTIFICATE

The undersigned JEFFERSON-PILOT INVESTMENTS, INC. ("Seller") hereby certifies to KVH INDUSTRIES, INC., a Delaware corporation ("Purchaser"), as of the _____ (the "Closing Date"), that the representations and warranties of Seller contained in Section ____ of the Purchase and Sale Agreement between Seller and Purchaser, dated as of _____ (the "Sale Agreement"), are true and correct in all material respects as of the date hereof except as follows: _____.

IN WITNESS WHEREOF, the Seller has executed this Seller's Closing Certificate as of the Effective Date.

JEFFERSON-PILOT INVESTMENTS, INC.

By: _____
Name: _____
Title: _____

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

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

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

Date: August 5, 2010

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

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

I, Patrick J. Spratt, certify that:

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

Date: August 5, 2010

By: /s/ Patrick J. Spratt
Patrick J. Spratt
Chief Financial and Accounting Officer

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

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned President, Chief Executive Officer and Chairman of the Board certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 5, 2010

/s/ Martin A. Kits van Heyningen

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

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

In connection with the Quarterly Report on Form 10-Q of KVH Industries, Inc. (the “Company”) for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned Chief Financial and Accounting Officer of the Company, certifies, to his best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 5, 2010

/s/ Patrick J. Spratt

Patrick J. Spratt

Chief Financial and Accounting Officer