

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 1996

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 No.)

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

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

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

The number of outstanding shares of the Registrant's Common Stock on October 25, 1996 was 6,910,833.

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

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	September 30, 1996 (Unaudited)	December 31, 1995 (Audited)
Assets		
Cash and cash equivalents	\$ 6,974,151	\$ 895,677
Accounts receivable	5,989,634	2,187,916
Contract receivables	34,200	994,056
Costs and estimated earnings in excess of billings on uncompleted contracts	1,381,659	916,194
Inventories	3,163,774	1,753,172
Prepaid expenses and other deposits	181,106	156,675
Deferred income taxes	515,285	515,285
	-----	-----
Total current assets	18,239,809	7,418,975
	-----	-----
Property and equipment, net	3,170,175	423,842
Other assets, less accumulated amortization	35,720	64,946
Deferred income taxes	23,510	23,510
	-----	-----
Total assets	\$21,469,214 =====	\$ 7,931,273 =====
Liabilities and stockholders' equity		
Current liabilities:		
Current lease obligation	\$ 47,653	\$ 40,787
Accounts payable	2,383,662	958,507
Accrued expenses	968,303	335,896
Customer deposits	2,621,095	2,869,595
	-----	-----
Total current liabilities	6,020,713	4,204,785
	-----	-----
Obligations under capital leases, excluding current installments	30,364	72,439
	-----	-----
Total liabilities	6,051,077	4,277,224
	-----	-----
Stockholders' equity:		
Preferred stock	0	12,982
Common stock	69,108	16,160
Additional paid-in capital	14,768,985	4,473,045
Accumulated deficit	580,044	(848,138)
	-----	-----
Total stockholders' equity	15,418,137	3,654,049
	-----	-----
Total liabilities and stockholders' equity	\$21,469,214 =====	\$ 7,931,273 =====

See accompanying notes to financial statements.

Item 1. Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
	----	----	----	----
Net sales	\$7,147,270	\$3,278,670	\$17,041,532	\$9,127,400
Cost of goods sold	4,228,801	1,924,934	9,750,437	5,355,053
	-----	-----	-----	-----
Gross profit	2,918,469	1,353,736	7,291,095	3,772,347
Operating expenses:				
Research and development	433,890	321,513	1,717,908	687,200
Sales and marketing	628,249	585,882	2,272,171	1,612,901
General and administrative	414,456	243,89	1,124,875	682,622
	-----	-----	-----	-----
Income from operations	1,441,874	202,442	2,176,141	789,624
Other (income) deductions:				
Interest (income) expense, net	(93,201)	14,998	(195,861)	42,422
Other (income) expense, net	14,331	(752)	4,106	18,459
Foreign currency (gain) loss	13,152	13,526	35,598	(7,325)
	-----	-----	-----	-----
Income before income taxes	1,507,592	174,670	2,332,298	736,068
Income tax expense	587,079	0	904,117	0
	-----	-----	-----	-----
Net income	\$ 920,513	\$ 174,670	\$1,428,181	\$ 736,068
	=====	=====	=====	=====
Net income per share:				
Primary	\$0.12	\$0.03	\$0.21	\$0.13
	=====	=====	=====	=====
Fully diluted	\$0.12	\$0.03	\$0.21	\$0.13
	=====	=====	=====	=====
Weighted average number of common and common equivalent shares outstanding:				
Primary	7,530,231	5,710,177	6,847,102	5,710,177
	=====	=====	=====	=====
Fully diluted	7,574,037	5,710,177	6,892,793	5,710,177
	=====	=====	=====	=====

See accompanying notes to financial statements.

Item 1. Financial Statements.

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

Nine months ended
September 30,
1996 1995

Cash flows from operating activities:

Net income	\$ 1,428,181	\$ 734,114	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	142,788	100,902	
(Increase) in accounts receivable	(2,841,862)	(987,455)	
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	(465,465)	677,579	
(Increase) in inventories	(1,410,602)	(788,376)	
(Increase) in prepaid expenses and other deposits	(24,431)	(77,082)	
Increase in accounts payable	1,425,155	(215,365)	
Increase (decrease) in accrued expenses	632,407	(52,190)	
Increase (decrease) in customer deposits	(248,500)	3,076,000	
	-----	-----	
Net operating cash provided by operating activities	(1,362,329)	2,468,127	
	-----	-----	
Cash flows from investing activities:			
Capital expenditures	(2,859,895)	(154,785)	
	-----	-----	
Net cash (used in) investing activities	(2,859,895)	(154,785)	
	-----	-----	
Cash flows from financing activities:			
(Repayments) incurrence of obligations under capital lease	(35,209)	4,027	
Issuance of capital stock, exercise of warrants and stock	10,335,907	8,624	
	-----	-----	
Net cash provided by financing activities	10,300,698	12,651	
	-----	-----	
Net increase in cash and cash equivalents	6,078,474	2,325,993	
Cash and cash equivalents at beginning of year	895,677	191,438	
	-----	-----	
Cash and cash equivalents at end of period	\$ 6,974,151	\$ 2,517,431	
	=====	=====	
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 8,916	\$ 45,403	
	=====	=====	

See accompanying notes to financial statements.

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 1996 and 1995
(Unaudited)

(1.) The unaudited interim financial statements presented herein have been prepared in accordance with generally accepted accounting principles and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. The financial statements reflect all adjustments (consisting of normal recurring adjustments and accruals) which, in the opinion of management, are considered necessary for a fair presentation of financial position at September 30, 1996 and results of operations for the three and nine months ended September 30, 1996 and September 30, 1995. These consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission (file number 333-01258) declared effective March 28, 1996, a copy of which is available from the Company. The results of operations for the three and nine months ended September 30, 1996 are not necessarily indicative of the results that may be expected for the full year ending December 31, 1996.

(2.) On March 28, 1996, the Company's registration statement for an initial public offering of common stock was declared effective. An aggregate of 1,800,000 shares of common stock were issued by the Company in April, 1996 at an initial public offering price of \$6.50 per share.

(3.) Inventories at September 30, 1996 and December 31, 1995 include the costs of material, labor and factory overhead. Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

(in thousands of dollars)

	1996	1995
Raw materials	\$2,795	\$1,256
Work in progress	149	101
Finished Goods	220	396
	-----	-----
Total	\$3,164	\$1,753
	=====	=====

(4.) On May 10, 1996 the Company purchased a 75,000 square foot manufacturing and office facility adjacent to the Company's existing operations for \$2,000,000. The Company is in the process of renovating the facility to accommodate engineering, manufacturing and office areas. The Company estimates the cost of renovation at approximately \$1,200,000 and that the Company expects to occupy the renovated facility in the first quarter of 1997. The addition of a second facility will increase the Company's available facility area to over 100,000 square feet and is expected to be sufficient to accommodate the Company's operating needs for the next three years.

(5.) Through December 31, 1995 the Company had available net operating loss carry-forwards for both tax return and financial reporting purposes. In 1995 the full benefit of the net operating loss carry-forward deduction was realized for financial reporting purposes and as a consequence of income taxes have been accrued for financial reporting purposes in 1996. Income tax expense for the three-and nine month periods ended September 30, 1996 were calculated using an estimated annual effective tax rate of 40%.

The effective tax rate for the three and nine months ended September 30, 1996 differs from the federal statutory rate of 34% primarily due to state tax expense net of federal tax benefit. The Company believes that its net deferred tax assets will more likely than not be fully realized, based upon estimated future taxable income projections.

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

This report may contain forward-looking statements which involve risks or uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors which might cause such differences include, but are not limited to, those discussed under "Risk Factors" in the Company's Registration Statement on Form S-1 (file No. 333-01258) declared effective March 28, 1996, a copy of which is available from

the Company.

Net Income and Earnings Per Share - Net income and earnings per share were \$920,513 and \$0.12 per share as compared with \$174,670 and \$0.03 per share for the three months ended September 30, 1996 and 1995 respectively. Net income for the third quarter of 1996 increased by \$745,843 or 427% over the third quarter of 1995. Net income and earnings per share were \$1,428,181 and \$0.21 per share as compared with \$736,068 and \$0.13 per share for the nine months ended September 30, 1996 and 1995 respectively. Net income and earnings per share for the three and nine months ended September 30, 1996 were negatively affected by the provision for income taxes resulting from the full utilization of net operating loss income tax carryforwards in 1995 and a 21% increase in the weighted average number of shares outstanding resulting from the Company's initial public offering in April of 1996.

Net Sales - Net sales for the three month period ended September 30, 1996 grew to \$7,147,270 or a 118% increase when compared with third quarter 1995 net sales of \$3,278,670. Net sales growth was comprised of communications products such as the TracPhone which is supplied to American Mobile Satellite Corporation and navigation products such as the TacNav military land navigation system which is supplied to the governments of Sweden, Canada, Saudi-Arabia and the United States. Quarterly product growth was somewhat offset by a planned decline in engineering development net sales of \$695,635 or 70% when compared with the third quarter of 1995. The planned decline in lower margin engineering development revenues results from the transition of military land navigation systems from customer-funded engineering development sales to manufactured product shipments that yield higher product gross margins.

Net sales through nine months ended September 30, 1996 was \$17,041,532, an increase of 87% when compared with net sales of \$9,127,400 in the comparable period of 1995. Net sales growth year to date represents the success of new product introductions such as the TracPhone stabilized antenna platform used for mobile marine based satellite communications systems and the TacNav tactical military land navigation system used in armored vehicles.

Gross Profit - Third quarter gross profit as a percentage of sales remained unchanged from the prior year at 41% of net sales. Third quarter 1996 gross margin was impacted by lower margin TacNav system components that are procured for the customer on a "pass-through" basis providing the Company with a minimal mark-up over the components costs. Gross margin grew to 43% of net sales in the first nine months of 1996 from 41% of net sales for the comparable period of 1995. Year to date gross margin improvement represents a transition from lower margin customer-funded engineering development sales to higher margin manufactured product sales.

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

Operating Expenses - Research and development expense increased by \$112,377 or 35% in the third quarter of 1996 when compared with the third quarter of 1995 and increased \$1,303,708 or 150% in the first nine months of 1996 compared with the first nine months of 1995, primarily as a result of a transition away from customer-funded research and development (accounted for as cost of sales) to Company-funded research and development (accounted for as research and development expense). Sales and marketing expense increased \$42,367 or 7% in the third quarter of 1996 when compared with the third quarter of 1995 and increased \$659,270 or 41% in the first nine months of 1996 when compared with the comparable period of 1995, due to increases in sales support costs such as outside sales representative commissions, advertising and travel expense required to support increased sales volumes. General and administrative expense increased by \$170,557 or 70% in the third quarter of 1996 when compared with the third quarter of 1995 and increased \$442,253 or 65% in the first nine months of 1996, primarily as a result of new hires to support the company's growth and increased legal, audit and insurance expenses that result from the Company's status as a publicly traded company.

Other (Income) Deductions - Other (income) deductions is made up of interest (income) expense net, other (income) expense net, and foreign currency (gain) loss. The quarterly and nine month decrease in other deductions resulted primarily from interest income which off set other expense charges. Third quarter 1996 interest income results from the investment of a portion of Company's initial public offering proceeds in interest bearing short term government securities.

Income Taxes - Income tax expense increased by \$587,079 in the third quarter of 1996 when compared with the third quarter of 1995 and increased \$904,117 for the first nine months of 1996 when compared with the comparable period of the prior year. No provision for income taxes was recorded in 1995 as the entire benefit of the Company's net operating loss carry-forward deduction was fully realized for financial reporting purposes in 1995. In 1996 net operating loss carry-forwards are available for tax return purposes only, consequently 1996 financial reported operating results include a provision for income tax expense.

Liquidity and Capital Resources - Working capital increased by \$9,004,906 in the third quarter of 1996 due to receipt of the proceeds of the Company's initial public offering in April, 1996. In May 1996 the Company purchased an operating facility in the amount of \$2,000,000 using a portion of the proceeds of the Company's initial public offering. Cash and cash equivalents were \$6,974,151 and \$895,677 on September 30, 1996 and December 31, 1995 respectively.

On June 28, 1996 the Company entered into a bank revolving line of credit in the amount of \$2,500,000 to replace the bank line of credit that expired on that date. The revolving line of credit is collateralized by all of the Company's assets. The Company has not drawn upon the loan facility. The new loan agreement expires on June 30, 1998.

On March 28, 1996, the Company's registration statement for an initial public offering of common stock was declared effective. An aggregate of 1,800,000 shares of common stock were issued by the Company in April, 1996 at an initial public offering price of \$6.50 per share that resulted in approximately \$9.9 million dollars in net proceeds. The Company believes that cash generated from operations, amounts available under its credit facility and the net proceeds of the initial public offering will be sufficient to fund its necessary operations and planned capital expenditures for at least the next twelve months.

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

Capital Expenditures - Net property and equipment increased approximately \$2,746,333 through the first nine months of 1996 as compared with net property and equipment at December 31, 1995. Fixed assets increases reflects the purchase of a manufacturing and office facility in the amount of \$2,000,000 as well as the procurement of production tooling related to communications products. The

Company believes that the cost of renovating the facility will approximate an additional \$1,200,000 prior to occupancy.

Other Matters - Effective January 1, 1996 the Company adopted Financial Accounting Standards Board Statements No. 121 "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed of" and No. 123 "Accounting for Stock-Based Compensation" ("FAS 123"). The adoption of these standards had no impact on the financial position or the results of operations of the Company for the period ended September 30, 1996. Under FAS 123, the Company has elected not to adopt the new accounting method and will continue to account for its stock-based compensation under the existing provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, the Company will provide pro-forma disclosures of net income and earnings per share for the year ended December 31, 1996, assuming FAS 123 had been adopted.

Part II. Other Information

Item 1. Legal Proceedings.

None

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

1. Exhibit 11 - Computation of Earnings Per Common Share: Three and Nine Months Ended September 30, 1996 and 1995.
2. Exhibit 27 - Financial Data Schedule: Nine Months Ended September 30, 1996.
3. No reports on Form 8-K were filed during the quarter for which this report was filed.

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

KVH Industries, Inc.

By: _____
Richard C. Forsyth Chief Financial and Accounting Officer

Date: October 25, 1996

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

	For the three months ended:		For the nine months ended:	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
	----	----	----	----
Primary earnings per share:				
Net Earnings	\$ 921	\$ 175	\$ 1,428	\$ 736
Weighted average number of common shares outstanding	6,907	4,861	6,167	4,861
Additional shares assuming conversion of:				
Stock options and warrants	623	849	680	849
	---	---	---	---
Average common shares and equivalents outstanding	7,530	5,710	6,847	5,710
	-----	-----	-----	-----
Net earnings per common share	\$0.12	\$0.03	\$0.21	\$0.13
	=====	=====	=====	=====
Fully diluted earnings per share:				
Net Earnings	\$ 921	\$ 175	\$ 1,428	\$ 736
Shares:				
Weighted average number of common shares outstanding	6,907	4,861	6,167	4,861
Additional shares assuming conversion of:				
Stock options and warrants	667	849	726	849
	---	---	---	---
Average common shares and equivalents outstanding	7,574	5,710	6,893	5,710
	=====	=====	=====	=====
Net earnings per common share	\$0.12	\$0.03	\$0.21	\$0.13
	=====	=====	=====	=====

Financial Data Schedule September 30, 1996

9-MOS	DEC-31-1996	
	SEP-30-1996	
		6,974,151
		0
		6,100,662
		111,028
		3,163,774
	18,239,809	
		4,707,489
		1,537,314
		21,469,214
	6,020,713	
		0
	0	
		0
		69,108
		0
21,469,214		
		17,041,532
	17,041,532	
		9,750,437
		9,750,437
		5,114,954
		0
		8,916
		2,332,298
		904,117
	1,428,181	
		0
		0
		0
		1,428,181
		.21
		.21