

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1997

Commission file number: 0-28082

KVH Industries, Inc.
(Exact name of Registrant as Specified in its Charter)

Delaware 05-0420589
(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

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

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

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

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

October 24, 1997 Common Stock, par value \$0.01 per, share 7,075,856

KVH INDUSTRIES, INC. AND SUBSIDIARY
INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	
Consolidated Balance Sheets as of September 30, 1997 and December 31, 1996	3
Consolidated Statements of Income for the three and nine months ended September 30, 1997 and 1996	4
Consolidated Statements of Cash Flows for the three and nine months ended September 30, 1997 and 1996	5
Notes to Consolidated Financial Statements	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8
PART II. OTHER INFORMATION	11
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	11
SIGNATURES	11

Part I. Financial Information

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	September 30, 1997 (Unaudited)	December 31, 1996 (Audited)
	-----	-----
Assets:		
Current assets:		
Cash and cash equivalents	\$ 7,905,205	7,005,682
Accounts receivable, net	3,566,750	6,130,567
Contract receivables	51,282	29,226
Costs and estimated earnings in excess of billings on uncompleted contracts	682,801	835,720
Inventories	3,022,096	3,242,270
Prepaid expenses and other deposits	217,915	179,705
Deferred income taxes	134,552	134,552
	-----	-----
Total current assets	15,580,601	17,557,722
	-----	-----
Property and equipment, net	5,156,492	3,881,088
Other assets, less accumulated amortization	0	25,978
Deferred income taxes	88,862	88,862
	-----	-----
Total assets	\$20,825,955	21,553,650
	=====	=====
Liabilities and stockholders' equity:		
Current liabilities:		
Current lease obligation	\$ 18,337	\$ 57,676
Accounts payable	1,025,623	1,031,309
Accrued expenses	1,117,675	1,371,193
Customer deposits	0	2,527,500
	-----	-----
Total current liabilities	2,161,635	4,987,678
	-----	-----
Obligations under capital leases, excluding current installments	0	3,341
	-----	-----
Total liabilities	2,161,635	4,991,019
	-----	-----
Stockholders' equity:		
Common stock	70,751	69,932
Additional paid-in capital	14,960,717	14,884,806
Accumulated earnings	3,632,852	1,607,893
	-----	-----
Total stockholders' equity	18,664,320	16,562,631
	-----	-----
Total liabilities and stockholders' equity	\$20,825,955	21,553,650
	=====	=====

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Net sales	\$ 7,025,976	7,147,270	18,712,814	17,041,532
Cost of sales	3,479,079	4,228,801	9,908,852	9,750,437
Gross profit	3,546,897	2,918,469	8,803,962	7,291,095
Operating expenses:				
Research and development	826,906	433,890	2,068,127	1,717,908
Sales and marketing	866,709	628,249	2,596,449	2,272,171
Administration	492,537	414,456	1,338,760	1,124,875
Income from operations	1,360,745	1,441,874	2,800,626	2,176,141
Other income (expense):				
Other income (expense)	102,897	(14,331)	92,778	(4,106)
Interest income, net	84,156	93,201	270,431	195,861
Foreign currency gain (loss) .	47,664	(13,152)	54,125	(35,598)
Income before income taxes ...	1,595,462	1,507,592	3,217,960	2,332,298
Income tax expense	576,663	587,079	1,193,001	904,117
Net income	\$ 1,018,799	920,513	2,024,959	1,428,181
Per share information:				
Income per share	\$ 0.14	0.12	0.27	0.21
Number of shares used in per share calculation	7,523,790	7,574,037	7,457,987	6,892,793

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements.

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

	Nine months ended September 30,	
	1997	1996
Cash flow from operations:		
Net income	\$ 2,024,959	1,428,181
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	525,042	142,788
Decrease (increase) in accounts and contract receivables	2,541,761	(2,841,862)
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts	152,919	(465,465)
Decrease (increase) in inventories	220,174	(1,410,602)
Increase in prepaid expenses and other deposits	(12,232)	(24,431)
(Decrease) increase in accounts payable	(5,686)	1,425,155
(Decrease) increase in accrued expenses	(253,518)	632,407
Decrease in customer deposits	(2,527,500)	(248,500)
	2,665,919	(1,362,329)
Cash flow from investing activities:		
Purchase of property and equipment	(1,800,446)	(2,859,895)
Net cash used in investing activities:	(1,800,446)	(2,859,895)
Cash flow from financing activities:		
Repayments of obligations under capital lease	(42,680)	(35,209)
Proceeds from issuance of capital stock, exercise of warrants and stock options	76,730	10,335,907
Net cash provided by financing activities	34,050	10,300,698
Net increase in cash and cash equivalents	899,523	6,078,474
Cash and cash equivalents at beginning of period .	7,005,682	895,677
Cash and cash equivalents at end of period	\$ 7,905,205	6,974,151
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 6,972	8,916
Cash paid during the period for income taxes	\$ 1,512,049	--

See the accompanying notes to consolidated financial statements.

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 1997 and 1996
(Unaudited)

(1.) The accompanying consolidated financial statements of KVH Industries, Inc. and subsidiary (the "Company") for the three and nine month periods ended September 30, 1997 have been prepared in accordance with generally accepted accounting principles and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These financial statements have not been audited by independent public accountants, but include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows for such periods. These consolidated financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K dated March 24, 1997 as filed with the Securities and Exchange Commission, a copy of which is available from the Company upon request. The results for the nine months ended September 30, 1997 are not necessarily indicative of the operating results for the remainder of the year.

(2.) Inventories at September 30, 1997 and December 31, 1996 include the costs of material, labor and factory overhead. Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following (in thousands of dollars):

	1997	1996
Raw materials	\$2,332	\$1,888
Work in process	533	714
Finished goods	157	640

	\$3,022	\$3,242

Defense project inventories are included in the balance sheet caption "Costs and estimated earnings in excess of billings on uncompleted contracts". Defense project inventories amounted to \$236,811 and \$385,748 at September 30, 1997 and December 31, 1996 respectively. Defense contracts provide for project costs reimbursement as costs are incurred, through monthly invoicing of vouchers or progress billings.

(3.) In May of 1996 the Company purchased a 75,000 square foot facility for \$2,000,000. Manufacturing operations were relocated to the new facility upon completion of the first phase of facility renovations in January of 1997. The Company completed the remainder of the facility renovations in September of 1997 and has moved all of its operations into the new facility. The cost of renovation and refitting the new facility amounted to approximately \$2,000,000. The Company's former 27,000-square-foot, leased facility is currently utilized as warehouse space. The Company is obligated under the lease agreement through September 30, 1999. Remaining minimum lease payments total approximately \$835,000.

(4.) Income tax expense has been calculated using an estimated year-to-date income tax rate of 37%. The tax rate utilized in the calculation of income tax expense differs from the federal statutory rate of 34% primarily due to state income tax expense net of the associated federal tax benefit and tax credits.

(5.) Concentration of credit risk, major customers and products Historically, the Company derives a significant portion of its sales from a limited number of customers. Year to date sales to the United States Government Tank and Automotive Command amounted to 32 % of net sales and AMSC mobile satellite product shipments amounted to 16% of total net sales. The Company anticipates that no further shipments to AMSC will occur this year. Sales to the armed forces of the United States, foreign governments and contractors that supply these governments directly, represented 51% of total year-to-date net sales.

(6.) Computation of net income per share is based upon the weighted average number of common and common equivalent shares outstanding. Common equivalent shares are included in the per share calculations where the effect of their inclusion would be dilutive. Dilutive common equivalent shares (using the treasury stock method) consist of the incremental common shares issuable upon conversion of stock options and warrants.

The Financial Accounting Standards Board ("FASB") recently issued Statement Number 128, "Earnings Per Share". This statement replaces the presentation of primary earnings per share with a presentation of basic earnings per share. It also requires dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation. This statement is effective for periods ending after December 15, 1997, including interim periods, and requires restatement of all prior period earnings per share data presented after the effective date. The effect of the adoption of FASB Statement Number 128 will not have a material impact on the Company's financial condition, results of operations or cash flows.

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

With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the heading "Forward Looking Statements" contained herein and in the Company's other filings with the Securities and Exchange Commission, including but not limited to those discussed under the heading "Forward Looking Statements" in the Company's 1996 Report on Form 10-K. Results of Operations

Overview - The Company develops, manufactures and markets digital navigation and mobile satellite communications products for use in commercial, military and recreational marine applications. The Company's digital navigation systems utilize the Company's proprietary autocalibration and applications software along with advanced sensor technology to provide users with accurate, real-time heading, orientation and position information. In 1993 the Company entered the mobile satellite communications market with the introduction of an active-stabilized antenna-aiming system that incorporates the Company's proprietary software and sensor technologies. To date the Company has sold the majority of mobile satellite products to systems integrators such as American Mobile Satellite Corporation ("AMSC"). In September 1997, the Company began selling satellite communications systems bundled with air time services directly to end-users as a part of a partnering agreement with PTT Telecom BV ("Station 12"), an INMARSAT air-time provider.

Net income and earnings per share - Net income and earnings per share for the three and nine month periods ended September 30, 1997 and 1996 were \$1,018,799 or \$0.14 per share and \$920,513 or \$0.12 per share for the three month periods and \$2,024,959 or \$0.27 per share and \$1,428,181 or \$0.21 per share for the nine month periods, respectively.

Net sales - Quarterly net sales were \$7,025,976, a 1.7% decrease when compared with last year's third quarter revenues of \$7,147,270. As anticipated, communications shipments slowed as new marine mobile satellite communication product sales replaced AMSC sales realized in the third quarter 1996 revenue base. The Company planned to replace last year's AMSC revenues by introducing two new products: TracVision II, a mobile marine, satellite broadcast television reception system and TracPhone 50, a mobile marine satellite based voice, data and fax communications system. The new products began shipping in the third quarter of 1997, but shipments were delayed until late in the quarter, limiting the Company's ability to offset the non-recurring 1996 AMSC revenues. Management decided to extend TracVision II product testing beyond the original requirement which delayed the product release. Shipment of TracPhone 50 was delayed due to component shortages resulting from a sole source supplier's inability to meet the component delivery schedule it had established with the Company. Third quarter 1997 TacNav military land navigation system shipments offset substantially all of the non-recurring AMSC sales recorded in last year's third quarter. Military land navigation systems represented 66% of third quarter 1997 sales, an increase of \$2,060,638 or 81% over the third quarter of 1996.

Net sales grew to \$18,712,814 in the first nine months of 1997, a 10% increase over the first nine months 1996 sales total of \$17,041,532. Year-to-date sales growth resulted from military land navigation shipments that grew to \$9,459,200, a 36% increase over the prior years result of \$6,965,443. Navigation defense revenues increases are being driven by sales to the United States Government Bradley Fighting Vehicle Program. (See "Forward Looking Statements")

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

Future revenue growth is largely dependent upon the Company's ability to increase demand for its current marine mobile satellite communications products and successfully design and market new products for the satellite market. The Company anticipates that during the ramp-up of communications sales, revenues from this sector may moderate. (See "Forward Looking Statements").

Gross profit - Gross profit is comprised of revenues less the cost of materials, manufacturing and warranty costs. Gross profit increased to \$3,546,897 or 122% in the third quarter of 1997 when compared with the third quarter of 1996. Third quarter gross profit as a percentage of net sales represented 50% of net sales in 1997 and 41% of net sales in 1996. The quarterly gross profit increase as a percentage of sales resulted from a larger mix of higher margin military land navigation products. Gross profit for the first nine months of 1997 increased to \$8,803,962 or 21% over the comparable period of the prior year. Year-to-date gross profit as a percentage of sales increased 4%, reflecting the 1997 increased mix military of land navigation sales. Future gross profit may decrease as a percentage of sales should the Company's sales mix return to a more representative historical pattern.

Operating expenses - Research and development increased to \$826,906 or 91% in the third quarter of 1997 from \$433,890 in the third quarter of 1996. Year-to-date research and development costs increased to \$2,068,127, 20% higher than the first nine months of 1996. Research and development cost increases resulted from the development of the new satellite communications products. Research and development costs are anticipated to increase for the remainder of the year as additional engineering resources are applied to fund new product developments. Sales and marketing expense increased to \$866,709 in the third quarter of 1997, a 38% increase when compared with the third quarter 1996. Year-to-date sales and marketing costs increased \$324,278, growing 1% as a percentage of net sales. Increased sales and marketing expense reflects staffing expansion required to support current and future sales growth. Sales and marketing expense is anticipated to increase throughout 1997 to support new product introductions and manage expanded geographic markets. General and administrative expense increased \$78,081 or 19% in the third quarter of 1997 when compared with the third quarter of 1996. Year-to-date general and administrative cost increased \$213,885 or 19%, but remained constant as a percentage of sales at 7%. General and administrative cost increases relate to staffing increases, directors' and officers' insurance, legal fees and investor relations costs. General and administrative costs are anticipated to increase gradually throughout 1997.

Other income (expense) - Other income (expense) is made up of interest income and expense, other income and expense and foreign currency translation gains and losses. The year-to-year change in other income reflects a State of Rhode Island training grant awarded to the Company in the third quarter of 1997.

Income taxes - Quarterly income tax expense of \$576,663 remained approximately unchanged when compared with the third quarter of 1996. Year-to-date income tax expense increased to \$1,193,001 a 32% growth over the comparable period of 1996. The current year tax rate has decreased due to available tax credits.

Liquidity and capital resources - Working capital increased by \$848,922 in the third quarter of 1997 from December 31, 1996. Cash and cash equivalents were \$7,905,205 and \$7,005,682 at September 30, 1997 and December 31, 1996 respectively. Cash and liquidity gains reflect the collection of several large receivable balances and the liquidation of the \$2.5 million dollar AMSC customer deposit. The Company believes that cash generated from operations, amounts available under its revolving bank borrowing facility and the net proceeds of the initial public offering will be sufficient to fund operations and planned capital expenditures for the next twelve months.

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

Capital expenditures - Fixed assets purchases amounted to \$1,800,446 in the first nine months of 1997. Fixed asset acquisitions are primarily capital improvements associated with the renovation of the Company's new 75,000-square-foot facility.

Forward Looking Statements - "Risk Factors"

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements that are subject to a number of risks and uncertainties. Some of the important factors that could cause actual results to differ materially from the results anticipated by the previous statements are discussed below.

Dependence on New Products and the Marine Mobile Satellite Communications Market - The Company's future sales growth will depend to a considerable extent upon the successful introduction of new mobile satellite communications products for use in marine applications, and those introductions will be affected by a number of variables including, but not limited to: market potential and penetration; reliability of outside vendors; satellite communications service providers' financial abilities and products; regulatory issues; maintaining appropriate inventory levels; disparities between forecast and realized sales; and design delays and defects. The occurrence of any of these factors would have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Government Customers Military Land Navigation Market - Year to date military land navigation sales account for 51% of revenues. There can be no assurance that government customers or their contractors will continue to purchase the Company's products at historic levels. Changes in procurement priorities or significant reductions or delays in procurement of the Company's products by any government customer would have a material adverse effect on the Company's business, financial condition and results of operations.

Variability of Quarterly Operating Results - The Company's quarterly operating results have varied in the past and may, in the future, vary significantly depending upon a number of factors, including: the size and timing of significant orders; increased competition; the viability of the marine mobile satellite communications market; market acceptance of new mobile satellite communications products; the ability of the Company to develop, introduce and market new products in a timely fashion; the ability of the Company to acquire specialized piece parts and product components in a timely fashion; the ability of the Company to control costs; the Company's success in expanding its sales and marketing programs; changes in sensor technology; changes in Company's strategy; the Company's ability to attract and retain key personnel; and general economic factors.

Possibility of Common Stock Price Volatility - The trading price of the Company's Common Stock has been subject to wide fluctuations. The trading price of the Company's Common Stock could be subject to wide fluctuations in the future in response to quarterly variations in operating results, announcement of new products by the Company or its competitors, changes in the financial estimates by securities analysts and other events or factors. In addition, the stock market has experienced volatility that has affected the market price of many high technology companies that has often been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Company's Common Stock.

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, 1997 and 1996.

2. Exhibit 27 - Financial Data Schedule: Nine Months Ended September 30, 1997.

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

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

KVH Industries, Inc.

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

Date: October 23, 1997

Exhibit 11

KVH INDUSTRIES INC.				
COMPUTATION OF EARNINGS PER SHARE				
(in thousands, except per share data)				
(unaudited)				
	For the three months ended September 30,		For the nine months ended September 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Net earnings	\$1,019	921	2,025	1,428
	=====	=====	=====	=====
Shares:				
Weighted average number of	7,054	6,907	6,997	6,167
common shares outstanding				
Additional shares assuming conversion of:				
stock options and warrants	470	667	461	726
	-----	-----	-----	-----
Average common shares				
outstanding and equivalents	7,524	7,574	7,458	6,893
	=====	=====	=====	=====
Net earnings per common share	\$0.12	0.27	0.21	0.14
	=====	=====	=====	=====

See the accompanying notes to consolidated financial statements.

Financial Data Schedule September 30, 1997

9-MOS	DEC-31-1997	
	SEP-30-1997	
		7,905,205
		0
		3,690,647
		72,615
		3,404,897
		15,580,601
		7,252,788
		2,096,296
		20,825,955
		2,161,635
		0
		0
		70,751
		0
20,825,955		
		18,712,814
		18,712,814
		9,908,852
		9,908,852
		6,003,360
		0
		7,800
		3,217,960
		1,193,001
		2,024,959
		0
		0
		0
		2,024,959
		0.27
		0.27