

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1999

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.)

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

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

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

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

Date	Class	Outstanding shares
April 22, 1999	Common Stock, par value \$0.01 per, share	7,205,928

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

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	March 31, 1999 (Unaudited)	December 31, 1998 (Audited)
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,991,339	1,239,227
Accounts receivable, net	4,646,673	3,106,414
Income taxes receivable	1,141,9377	1,062,494
Costs and estimated earnings in excess of billings on uncompleted contracts	221,641	768,156
Inventories	3,558,915	3,390,787
Prepaid expenses and other deposits	380,337	360,346
Deferred income taxes	382,906	234,158
	-----	-----
Total current assets	13,323,748	10,161,582
	-----	-----
Property and equipment, net	7,445,575	7,186,539
Other assets, less accumulated amortization	938,046	972,365
Deferred income taxes	425,150	425,150
	-----	-----
Total assets	\$ 22,132,519	18,745,636
	=====	=====
Liabilities and stockholders' equity:		
Current liabilities:		
Current portion long term debt	\$ 71,368	--
Accounts payable	1,309,752	853,238
Accrued expenses	904,432	822,533
	-----	-----
Total current liabilities	2,285,552	1,675,771
	-----	-----
Long term debt	2,922,719	--
	-----	-----
Total liabilities	5,208,271	1,675,771
	-----	-----
Stockholders' equity:		
Common stock	72,059	72,059
Additional paid-in capital	15,439,421	15,439,421
Retained earnings	1,412,768	1,558,385
	-----	-----
Total stockholders' equity	16,924,248	17,069,865
	-----	-----
Total liabilities and stockholders' equity	\$ 22,132,519	18,745,636
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

Item 1. Financial Statements.

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

	Three months ended	
	March 31,	
	1999	1998
	-----	-----
Net sales	\$ 5,973,170	
Cost of sales		4,128,601
	3,769,758	2,998,419
	-----	-----
Gross profit	2,203,412	1,130,182
Operating expenses:		
Research & development	869,541	851,052
Sales and marketing	1,152,731	1,102,654
Administration	569,183	632,337
	-----	-----
Loss from operations	(388,043)	(1,455,861)
Other income (expense):		
Other income (expense)	4,546	(2,071)
Interest (expense) income, net	(100)	29,935
Foreign currency gain	11,170	1,665
	-----	-----
Loss before income tax benefit	(372,427)	(1,426,332)
Income tax benefit	226,810	529,613
	=====	=====
Net loss	\$ (145,617)	(896,719)
	=====	=====
Per share information:		
Loss per share		
Basic	\$ (0.02)	(0.13)
Diluted	\$ (0.02)	(0.13)
Number of shares used in per share calculation:		
Basic	7,205,928	7,086,228
Diluted	7,205,928	7,086,228

See accompanying Notes to Consolidated Financial Statements.

Item 1. Financial Statements.

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

	Three months ended	
	1999	March 31, 1998
Cash flow from operations:		
Net loss	\$ (145,617)	(896,719)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	203,080	184,357
Provision for deferred taxes	(148,748)	(597,393)
(Increase) decrease in accounts receivable, net	(1,540,259)	1,499,530
Increase in income taxes receivable	(79,443)	--
Decrease in costs and estimated earnings in excess of billings on uncompleted contracts	546,515	29,521
Increase in inventories	(168,128)	(557,873)
(Increase) decrease in prepaid expenses and other deposits	(19,991)	49,384
Increase (decrease) in accounts payables	456,514	(223,681)
Increase (decrease) in accrued expenses	81,899	(250,990)
Decrease in customer deposits	--	(25,068)
	-----	-----
Net cash used in operating activities	(814,178)	(788,932)
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(427,797)	(245,382)
	-----	-----
Cash flow from financing activities:		
Proceeds from long term debt	3,000,000	--
Repayments of long term debt	(5,913)	--
Repayments of obligations under capital lease	--	(2,159)
Proceeds from exercise of stock options	--	985
	-----	-----
Net cash provided by (used in) financing activities	2,994,087	(1,174)
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,752,112	(1,035,488)
	-----	-----
Cash and cash equivalents beginning of period	1,239,227	4,757,614
Cash and cash equivalents end of period	\$ 2,991,339	3,722,126
	=====	=====
Supplement disclosure of cash flow information		
Cash paid during the period for interest	\$ 30,108	2,961
Cash paid during the period for income tax	\$ 1,130	--

See accompanying Notes to Consolidated Financial Statements.

Item 1. Financial Statements.

KVH INDUSTRIES, INC. AND SUBSIDIARY  
Notes to Consolidated Financial Statements  
March 31, 1999 and 1998  
(Unaudited)

(1) The accompanying consolidated financial statements of KVH Industries, Inc. and subsidiary (the "Company") for the three-month periods ended March 31, 1999 and 1998 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. The consolidated financial statements presented 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, 1999 as filed with the Securities and Exchange Commission, a copy of which is available from the Company upon request. The results for the three months ended March 31, 1999 are not necessarily indicative of the operating results for the remainder of the year.

(2) Inventories at March 31, 1999 and December 31, 1998 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:

	1999	1998
Raw materials	\$ 2,220,019	\$2,178,265
Work in process	774,264	461,798
Finished goods	564,632	750,724
	\$3,558,915	\$3,390,787

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 \$44,327 and \$139,930 at March 31, 1999 and December 31, 1998, respectively. Defense contracts provide for project costs reimbursement as costs are incurred, through monthly invoicing of vouchers or progress billings.

(3) On January 11, 1999, the Company entered into a mortgage loan in the amount of \$3,000,000 with a life insurance company. The note term is 10 years, with a principal amortization of 20 years at a fixed rate of interest of 7%. Due to the difference in the term of the note and the amortization of principal, a balloon payment is due on February 1, 2009, in the amount of \$2,014,716.

(4) The first quarter provision for income taxes includes a tax benefit of \$79,443 resulting from the realization of the difference between the 1998 estimated income tax refund and the actual refund. Excluding the effect of this benefit, the Company's effective tax rate for the three months ended March 31, 1999 is approximately 40%. The difference between the Company's effective tax rate and the statutory tax rate is due primarily to state income taxes.

(5) Net loss per common share. The computation of the loss per share for the three-month periods ended March 31, 1999 and 1998 excludes the effect of potential common stock, as the effect would be antidilutive. See Exhibit 11 for a reconciliation of the weighted-average number of shares outstanding used in the computation of the basic loss per common share.

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

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

With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those stated. These forward-looking statements reflect management's opinions only as of the date hereof, and KVH Industries, Inc. assumes no obligation to update this information. Risks and uncertainties include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements - Risk Factors." Shareholders of the Company are cautioned not to place undue reliance on forward-looking statements made in the Quarterly Report on Form 10-Q. This report should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K dated March 24, 1999. These reports are filed with the Securities and Exchange Commission and copies are available from the Company upon request or through the Company's web site at [HTTP://WWW.KVH.COM](http://www.kvh.com).

#### Results of Operations

Overview - The Company develops, manufactures and markets digital navigation, fiber optic sensor and mobile satellite communications products for commercial, military and recreational marine applications. Products developed by the Company provide accurate, real-time heading, orientation and position data and are based on the Company's proprietary sensor technology, robotics, and autocalibration and applications software. In 1982, the Company introduced the world's first commercial digital fluxgate compass and focused primarily on commercial marine navigation product development until 1985, when the U.S. military first used its compasses. A tactical navigation system KVH developed in 1991 for U.S. land military vehicles in the Persian Gulf War combined the Company's sensor and autocalibration technologies, and subsequently the Company developed a tactical navigation product line that is marketed to militaries throughout the world. The Company entered the mobile satellite communications market in 1993 by introducing an active-stabilized antenna-aiming system and subsequently creating a marine product line that delivers mobile television reception in North America and Europe and fax, voice and data communications worldwide via Inmarsat-3 mini-M satellites. In February 1999, the Company further expanded its mobile satellite communications product line by introducing a system that delivers mobile television reception to land vehicles such as RVs, motor coaches, SUVs, vans, buses and long-haul trucks. The Company markets its integrated communications systems directly to end-users through an established international dealer network. To advance its technological capabilities and expand its markets, in 1997 the Company acquired the assets of Andrew Corporation's fiber optic research group. The Company is integrating its fiber optic gyroscopes (FOGs) with existing product lines, particularly in defense navigation, and marketing FOGs to OEM customers.

Net loss per share - Net loss and loss per share for the three-month periods ended March 31 were \$145,617 or \$.02 per share in 1999 and \$896,719 or \$0.13 per share in 1998. Operating losses in 1999 were attributable primarily to ongoing expenses related to FOG integration and development. The Company believes that there is a strong demand for high-accuracy, FOG-based products in the military sector and is continuing to spend research and development funds to accelerate the integration of fiber optic technology into its defense product offerings. The Company anticipates that reduced FOG revenue and fixed FOG operating costs over the next 9 to 12 months will continue to adversely affect financial results. The Company forecasts that it will continue to experience losses for the remainder of the year due to the FOG investment and continuing new product development and selling expenses as new products are introduced into the marketplace.

Net sales - Net sales for the 1999 first quarter were \$5,973,170, a 45% increase over first-quarter 1998 revenues of \$4,128,601. The increase is due primarily to a \$1.8 million order that increased overall quarter-to-quarter military navigation sales by \$1.5 million. Total navigation sales increased 35 percent in the 1999 first quarter to \$3.5 million from \$2.6 million in 1998. Communication sales grew to \$2,433,209 or 60% above \$1,520,008 in last year's first quarter, fueled by sales of two new communications products introduced in this year's first quarter. Fiber optic sales declined by \$281,885 or 43% below last year's first quarter, reflecting the withdrawal from the bus navigation market. The Company anticipates that communications sales will continue to accelerate, while defense sales will moderate.

Gross profit - Gross profit is comprised of revenues less the cost of materials, direct labor, manufacturing overheads and warranty costs. First-quarter gross profit increased 95% to \$2,203,412 in 1999 from \$1,130,182 in 1998. Gross profit as a percentage of net sales increased to 37% in 1999 from 27% of net sales in the prior year. Gross profit improvement reflects the decrease of manufacturing overheads as a percentage of sales of 6% and improved product costs amounting to 4% of net sales. Product cost improvements resulted from the introduction of new

communication product offerings as well as the positive impact of increased sales volumes of higher margin defense products. The Company anticipates that gross profit will decrease as the mix of product revenues begins to shift away from higher margin navigation products towards lower margin communications products. Additional negative pressure will be placed on gross profit due to fiber optic sales volumes that to date have failed to offset manufacturing spending.

Operating expenses - Research and development expense increased 2% in the 1999 quarter to \$869,541 from \$851,052 in 1998 due to continued costs for fiber optic integration and development. The Company's present fiber optic emphasis is in defense applications, a market that the Company feels can provide significant sales volumes over a number of years. The 5% increase in sales and marketing expense to \$1,152,731 in 1999 from \$1,102,654 in 1998 was due to the costs of launching new communication products. General and administrative expenses decreased 10% to \$569,183 from \$632,337 due to staffing reallocations to operating departments. The Company anticipates that R&D and sales and marketing expenses will increase as the year progresses as new products are developed and released into the marketplace. Administrative costs are anticipated to remain at current levels throughout the remainder of the year.

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.

Income tax benefit - The first-quarter income tax benefit reflects the realization of the tax benefit associated with the current quarter's loss and the recognition of the difference between the estimated 1998 tax refund and the actual tax refund per the 1998 income tax filing.

#### Liquidity and capital resources

Working Capital - Working capital increased by \$2,552,385 in the first three months of 1999 from December 31, 1998. Cash and cash equivalents were \$2,991,339 and \$1,239,227 at March 31, 1999 and December 31, 1998, respectively. The increase in capital resources reflects the mortgage financing of the Company's headquarters in Middletown, Rhode Island, in the amount of \$3,000,000.

On September 29, 1998, the Company renewed a \$2,500,000 revolving credit agreement with its bank. The credit agreement expires on June 30, 1999. Borrowings are secured by substantially all of the assets of the Company, except for land, building and improvements. At March 31, 1999, the Company had \$2,500,000 of unused borrowings with its bank to be drawn upon as needed.

Capital expenditures - Fixed assets purchases amounted to \$427,797 in the first three months of 1999. Fixed asset acquisitions are primarily the purchases of a year 2000-compliant computer system, leasehold improvements to meet the specialized demands of FOG manufacturing and tooling associated with new products.

The Company believes that existing cash balances amounts available under its revolving credit facility and funds generated from the mortgage will be sufficient to meet anticipated liquidity and working capital requirements for 1999. If the Company decides to expand more rapidly, to broaden or enhance its products more rapidly, to acquire businesses or technologies or to make other significant expenditures to remain competitive, then it may need to raise additional funds.

#### Other Matters

Year 2000 - The Company has evaluated the impact of the year 2000 issue as it relates to its navigation and communications products, both sold or intended to sell, and has concluded that the Company's products are not affected by year 2000 operating issues. The Company has also assessed its software and computer systems, ensuring that its computer software and hardware are year 2000 compliant. The most significant element of this process is the upgrading of its enterprise resource planning system at a cost of approximately \$0.8 million, of which approximately \$0.6 million has been spent to date. The Company is contacting its customers, suppliers, and financial institutions, with which it does business, to ensure that any year 2000 issue is resolved. While there can be no assurance that the systems of other companies will be year 2000 compliant, the Company has no knowledge of any such third party year 2000 issues that would result in a material adverse affect on its operations. Should the Company become aware of any such situation, contingency plans will be developed. The Company could be adversely affected should the Company or other entities with whom the Company conducts business be unsuccessful in resolving year 2000 issues in a timely manner. The Company estimates that it was 90% complete at March 31, 1999, in implementing its new system and believes it will be year 2000 compliant by the first half of 1999. The Company believes the cost of becoming year 2000 compliant will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Recent Accounting Pronouncements - The Financial Accounting Standards Board ("FASB") recently issued Statement of Financial Accounting Standards Number 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging, requiring recognition of all derivatives as either assets or liabilities in the statement of financial position measured at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The effect of adopting SFAS 133 is not expected to have a material impact on

the Company's financial condition, results of operations or cash flows.

#### 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. Among the important factors that could cause actual results to differ materially from those anticipated by the statements made above are the following:

The Company's products target two industries that are subject to volatility, risks and uncertainties. The communications industry is experiencing rapid growth fueled by strong worldwide demand and buffeted by competing formats and rapid, unpredictable technology changes. The defense industry historically experiences variability in supply and demand related to international conditions, national politics, budget decisions and technology changes, all of which are difficult or impossible to predict. Factors in both industries could affect the Company's ability to effectively meet prevailing market conditions. To position itself in these uncertain industries, the Company has taken a number of steps that include, but are not limited to: acquisition of the fiber optic technology and development of new related products; ongoing analysis of potential technology advances; staff reductions and reallocations; improved operational efficiencies; inventory reduction; recruiting key personnel and implementing cost controls. There can be no assurance that the objectives of these development and cost-reduction activities will be achieved.

Other factors that could cause actual results to differ materially from the results anticipated by management include:

FOG Acquisition. The additional personnel and operating expenses associated with the acquisition of FOG technology and assets from Andrew Corporation in October 1997 added significant costs to the Company's operations. As the Company continues the process of integrating FOG sensors into current product offerings and identifying new, untapped markets for existing FOG products, it expects FOG-related costs to remain level or increase. Although the Company believes FOG sensor technology shows great promise, to date the Company has been successful in marketing only small quantities of products and it does not anticipate that FOG-enhanced products will provide significant revenues for the next 9 to 12 months. The Company is designing its FOG-enhanced products to meet what it believes are customer performance and price criteria; however, at this early stage of product development and market introduction the Company can provide no assurance that these objectives will be met or that competing technologies will not be developed that may supercede FOG technology. The occurrence of any of these factors could have a material adverse effect on the Company's business, financial condition and results of operations.



Sales cycles for the Company's TACNAV and TACNAV Light systems for military navigation applications are long and difficult to predict, resulting in a variable revenue stream from this market. Military revenues decreased in 1998 from 1997 and the Company anticipates that 1999 defense revenues will remain relatively flat.

Part II. Other Information

Item 1. Legal Proceedings.

None

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

1. Exhibit 11 - Computation of Loss Per Common Share: Three Months Ended March 31, 1999 and 1998.
2. Exhibit 27 - Financial Data Schedule: Three Months Ended March 31, 1999.
3. No reports on Form 8-K were filed during the quarter for which this report was filed.

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

KVH Industries, Inc.

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

Date: April 22, 1999

Exhibit 11.

Computation of net loss per share, all data in thousands, except per share data. This data is unaudited.

ended March 31,	For the three months	
	1999	1998
Calculation of loss per share - basic		
Net loss	\$ (146)	(897)
Shares:		
Common shares outstanding	7,206	7,086
Net loss per common share - basic	\$ (0.02)	(0.13)
Calculation of loss per share - diluted		
Net loss	\$ (146)	(897)
Shares:		
Common shares outstanding	7,206	7,086
Additional shares assuming conversion of: stock options and warrants	0	0
Average common and equivalent shares outstanding	7,206	7,086
Net loss per common share - diluted	\$ (0.02)	(0.13)

See the accompanying notes to consolidated financial statements.

KVH Industries, Inc. March 31, 1999

3-MOS	DEC-31-1999	
	MAR-31-1999	
		2,991,339
		0
		4,726,086
		79,413
		3,558,915
	13,323,748	
		10,674,504
		3,228,929
		22,132,519
	2,285,552	
		0
	0	
		0
		72,059
		0
22,132,519		
		5,973,170
	5,973,170	
		3,769,758
		3,769,758
	2,591,455	
		0
		100
	(372,427)	
		226,810
	(145,617)	
		0
		0
		0
		(145,617)
		(0.02)
		(0.02)