



A Letter to Shareholders

Dear Fellow Investor,

At KVH Industries, we look for new opportunities, pursue technological innovations, reward creative thinking, and build pioneering solutions while standing on a foundation of proven products, real markets, and satisfied customers. The value of that business vision was demonstrated in 2001 as we posted record revenues and made tremendous strides in our new product initiatives in the face of uncertain economic conditions and tragic world events. Thanks to a profitable core business, expanding markets, and a diverse line of products, I believe that KVH is poised for substantial growth and exciting developments in the coming year.

Looking Back

In 2001, our revenues grew 9% over 2000 to \$32.7 million, driven by the fifth consecutive year of growth in our satellite communications business. Our fiber optic technology also began to fulfill its promise as fiber optic revenues rose 164% over the previous year. While our defense-related sales were down for the year, we made significant technical strides with the launch of our new gyro-based TACNAV™ II navigation system and continued to book new military orders. As a result, we entered 2002 with a defense order backlog equal to last year's shipments and a goal to double our defense revenues this year.

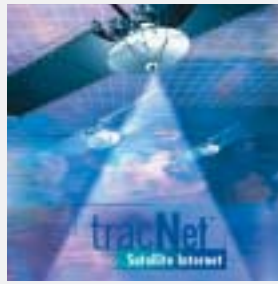
With our core businesses expanding, we raised \$19.5 million in new capital and launched two exciting new initiatives – Mobile Broadband and ActiveFiber™. To bring these exciting programs to market as quickly as possible, we elected to channel this capital back into the company for the purposes of research and development. By the end of 2001, we had directed more than \$4.5 million toward our new initiatives. We made this investment knowing it would delay our return to profitability in the short term. However, we chose to look at our efforts in the long term and create the potential for significant growth and real profits for the company and its investors. That investment is beginning to bear fruit.



Revenues by Product Category

- Defense Navigation
- Fiber Optic/Sensors
- Mobile Satellite





Bringing together a unique combination of technologies, KVH introduced TracNet, the first mobile broadband Internet service in North America for vehicles and vessels on the go.



Looking Up

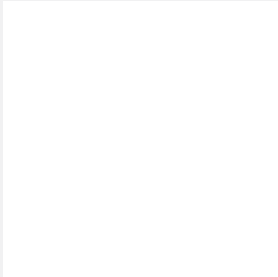
The primary engine of our revenue growth has been our satellite communications business. We now offer a comprehensive suite of satellite TV and communications systems for marine and land mobile applications and have claimed a significant share in each of these markets, including an estimated 70% of the in-motion satellite TV market. Our Mobile Broadband initiative is expanding the reach of our technology, bringing satellite television and broadband Internet access to vehicles and vessels throughout North America.

The first tangible result of this effort was the October 2001 introduction of our TracNet™ Mobile High-speed Internet System. Using our TracVision® satellite TV antennas and other existing technology, we became the first company to bring high-speed Internet via satellite to vehicles and vessels on the move. TracNet is not our final answer for mobile Internet, but it is a great first step. With it, we have entered the mobile high-speed Internet market and created exciting new opportunities for KVH.

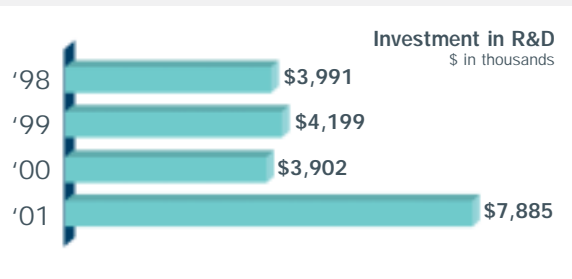
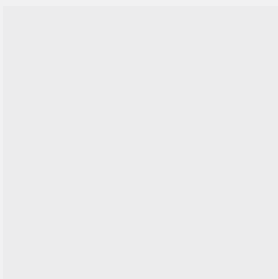
The next step in our Mobile Broadband initiative is the development of an innovative and affordable low-profile antenna. This antenna will bring satellite TV and high-speed Internet access to minivans, SUVs, and other vehicles. We have completed the fundamental research and are turning our sights to developing this revolutionary new system for launch in late 2002.

Looking Out

In 2001, we also launched our ActiveFiber initiative, which is an effort to apply our fiber optic technology in high-speed optical networks. To do so, we proposed a radical new concept for optical components that removes the conventional electro-optic chip from the equation. Instead, we would build components directly within our patented D-shaped optical fiber using electro-optic polymers. The resulting ActiveFiber products could significantly increase the speed and capacity of existing and future telecommunications networks.

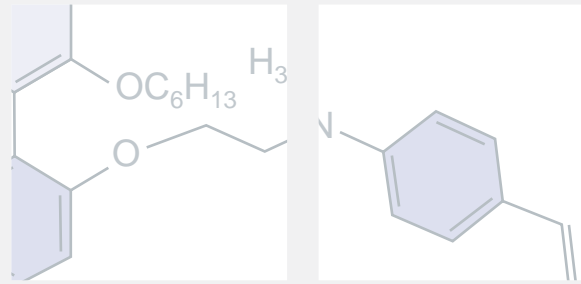


Envisioning mobile satellite access for the untapped automotive market, KVH set out to develop an innovative new low-profile antenna that will bring mobile high-speed Internet and satellite TV to vehicles throughout North America.



In 2001, we significantly increased our investment in R&D for our Mobile Broadband and ActiveFiber initiatives, preparing the company to pursue exciting new opportunities.

Combining a breakthrough electro-optic polymer with our revolutionary in-fiber design, KVH ActiveFiber technology has the potential to be the basis for a new family of high-speed optical networking components.



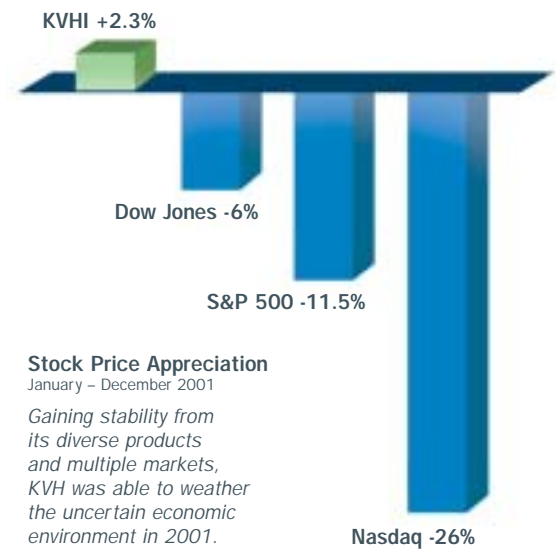
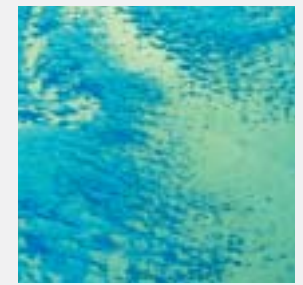
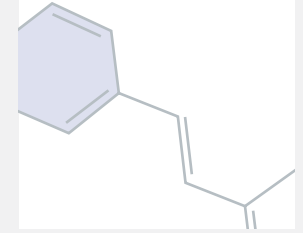
The creation of ActiveFiber required an entirely new approach to electro-optic polymers. KVH's research efforts have led to the creation of a proprietary new material that may provide major performance breakthroughs. We believe that our polymer concept now offers the best combination of stability and electro-optic coefficient of any known material. Our first ActiveFiber product, which is still in the development phase, is a high-speed optical modulator that will use these polymers to reach initial speeds of 40 gigabits per second.

Looking Ahead

With our proven product lines, strong position in multiple markets, and a clear vision of our company's goals, KVH was able to weather the difficulties faced by businesses worldwide in 2001. Thanks to a growing core business and a substantial backlog of military orders, we believe that we will achieve profitability this year. Furthermore, we continue to make great progress in bringing our Mobile Broadband and ActiveFiber initiatives to market. KVH is poised to take advantage of exciting opportunities, enter new markets, and create added value for you, our shareholders. I invite you to visit our website – www.kvh.com – for the complete story and the latest information about KVH, our products, and our progress. Thank you for being an important part of KVH Industries. We look forward to your continued support.

Sincerely,

Martin Kits van Heyningen
President and Chief Executive Officer



Stock Price Appreciation
January – December 2001

Gaining stability from its diverse products and multiple markets, KVH was able to weather the uncertain economic environment in 2001.