

Dear Fellow Stockholders,

We entered 2004 with a set of challenging goals for growth within our key markets – mobile satellite television and defense guidance systems – and during the course of the year, we achieved many major milestones:

- We completed our first full year of mobile satellite TV sales to the automotive market and became the only approved source for DIRECTV[®] service in cars.
- We strengthened and expanded both our marine satellite TV and communications families as well as our fiber optic product line.
- We developed new features and capabilities for our military navigation products to expand our potential addressable markets.
- We increased our annual revenues by 10% to a record \$62.3 million.

Our core satellite business, delivering digital satellite TV to mobile consumers, continues to drive our growth, with sales up 24% for the year. Visit any marina in North America and you'll see a sea of our trademark white and gray TracVision[®] and Tracphone[®] satellite antennas. More major RV manufacturers use TracVision than any other brand of mobile satellite TV antenna. And while sightings of our new TracVision A5 on cars might not be as frequent as I hope they'll be in the future, I'm proud to say that when you do see families around the United States enjoying DIRECTV programming in their automobile, you know it's a TracVision on their car.

Nevertheless, we recognize that some of our 2004 results were not up to either our expectations or yours. Unforeseen challenges negatively affected our results and required us to adapt our plans as the year progressed. The first quarter was the high point of the year for our mobile satellite TV sales in the RV market, largely as a result of one of our largest aftermarket customers significantly reducing its company-wide inventory for all of its retail products beginning in the second quarter. Aftermarket sales of the TracVision A5 grew sequentially from the second quarter on, but not at the pace we originally hoped. And, in light of shifting operational needs in Iraq, our largest U.S. military customers dramatically adjusted their purchasing priorities, leading us to reevaluate our sales goals for the year.

These were the realities of the marketplace. While we remained confident in our long-term strategic plan, we knew that we needed to adjust certain elements of our business operations. Thankfully, our core assets were financially strong. We weathered the challenges posed during the first half of the year and began taking steps that allowed us to adapt our business tactics to what we were seeing in the marketplace. The company is stronger now as a result.

Strengthening Our Balance Sheet

Our plans to be the leading provider of mobile satellite TV systems to the booming automotive video market are ambitious. We recognized that meeting the opportunities and challenges that come with strong growth required that we strengthen our balance sheet. We did so by completing an equity offering in February 2004 that enabled us to raise \$48 million. As a result, we are equipped with the financial resources necessary to support our growth plans.

Gaining Momentum in the Automotive Marketplace

Almost five years ago, we set out to develop the first commercially viable, low-profile satellite TV antenna for cars because we believed that mobile video in automobiles had the potential to dwarf any other mobile market we served. That belief seems to be proving correct – industry analyst TRG Research recently indicated that more than 3.4 million mobile video systems were sold for automobiles in 2004. In addition, analyst Frost & Sullivan expects that by 2011, as many as 36.8 million vehicles in the U.S. will be equipped with passenger entertainment systems. Just as important is Frost & Sullivan’s projection that by 2011, more than 3 million of those cars will be equipped with mobile satellite TV. KVH is leading the way with our award-winning TracVision A5 system providing access to 135+ channels of DIRECTV programming, a fact recognized by Frost & Sullivan when it bestowed upon us its first-ever “Market Leadership Award for Automotive Mobile Satellite TV” in January 2005.

Being the pioneer of new technology and opening a new market doesn’t come without its share of challenges. Following the successful launch of the TracVision A5 in September 2003 and a full quarter of shipments to fill backlog and initial orders, sales of our automotive satellite TV system slowed at the start of 2004. While sales did increase sequentially in the second quarter, we elected to be much more aggressive with the price and promotion of the TracVision A5. Thanks to the success of our ongoing product cost reduction program, we were able to cut the TracVision A5’s MSRP by roughly 30% in July 2004 to ensure that we capitalized on our “first-to-market” position and built momentum during the second half of the year. It appears to be working. TracVision A5 sales continued to improve from one quarter to the next and the sales ramp strengthened in the second half of the year.

In June 2004, we also announced a new agreement with DIRECTV, Inc., which emerged following months of technical evaluations by DIRECTV engineers and marketing discussions between our two companies. The end result – DIRECTV created TOTAL CHOICE[®] MOBILE, a unique programming package available for automobiles, and KVH is the only company authorized to promote and activate this entertaining new service. To take advantage of our relationship with DIRECTV, we also launched an expanded marketing effort to raise consumer awareness.

We also created a dedicated business development team with a mandate to respond to the accelerating interest among automakers. Since then, we have met with many automotive OEMs and our efforts are beginning to bear fruit. In November 2004, General Motors honored the TracVision A5 with its “2004 Most Innovative Product” award. Cadillac is now actively promoting the TracVision A5 to its premier dealers, featuring the TracVision A5 at its Super Bowl-related festivities, dealer meetings, and industry venues like the New York Auto Show. I believe that our efforts and the enthusiasm among automakers will help pave the way for TracVision A5 sales directly through new car dealers as well as potential factory installation of TracVision systems in the coming years.

I am confident that all of these bold steps in the aftermarket and in conjunction with the OEMs, while perhaps coming at the expense of short-term results, are raising the odds of our long-term success.

Supporting All Markets through Innovative New Technology

As a technology company, our research and development efforts are critical to our future success. We maintained our strong pace of R&D investment (roughly 10% of revenue) to support new initiatives in all product families.

While we continued to refine the TracVision A5, we also pursued the development of both a new, embedded system (a prototype of which was unveiled by Cadillac in March 2005) and a next-generation electronic scanning antenna. In addition, we brought new marine products like the TracVision G8 satellite TV system and Tracphone F33 satellite communications system to market in 2004. The result was strong growth in the marine marketplace throughout the year. These efforts rolled over into 2005, when we introduced new, higher-performance successors to a number of our marine TracVision systems.

In the defense market, one of our major objectives for 2004 and beyond is to make certain that our TACNAV® military navigation systems evolve to meet emerging mission-critical requirements. By combining our expertise in communications and navigation technology, we are positioning TACNAV to support new opportunities and new vehicle platforms in both the U.S. and foreign militaries.

Our long-term R&D efforts also resulted in the successful consolidation of our fiber optic gyro product line into a single, core design using our patented digital signal processing technology. Our versatile new FOGs, including the DSP-3000, the militarized DSP-4000, and our precision TG-6000 inertial measurement unit, have been well received and are gaining traction in the market. These systems are enabling us to compete aggressively for a range of guidance and stabilization programs in both the defense and commercial arenas.

Improving Our Operational Model & Business Foundation

Our investment was not limited to R&D but also contributed to improvements in how we do business. In mid-year, we launched a multifaceted effort to improve our internal systems and overall operations. We made significant headway in areas ranging from manufacturing efficiencies and cost structure to more effective forecasting of retailer inventory patterns and the overall predictability of our business performance. New shipping and warehousing systems have substantially increased our operational efficiency. Additional robotic assembly systems were installed to support TracVision A5 production. We expanded our European facilities to accommodate expanding sales overseas. And we've fielded new on-the-road demonstration vehicles that are crisscrossing the United States and supporting our TracVision A5 sales, training, and media outreach efforts.

We also continue to invest in our employees at all levels, providing expanded training and new tools and hiring talented personnel to support our initiatives. Advanced information systems are streamlining the sales and order process for our customers. We are expanding our dealer training efforts as well as our customer support programs.

Each step and every initiative we pursue is focused on one goal: building a stronger business foundation that will maximize long-term shareholder value.

Although the bottom line return in 2004 and the company's stock price performance did not meet expectations, we are in a stronger position now than we were at the start of 2004. We enter 2005 with:

- the people, technology, financial assets, and flexibility to pursue the significant opportunities available to us;
- a customer base that values our solutions, services, and support; and
- partners who are as committed to success as we are.

I believe that we made tremendous progress during the past year. KVH remains the leader in substantial markets with excellent growth opportunities. We are taking actions we felt were necessary to help us deliver the consistent long-term, profitable growth and positive shareholder returns that I and the more than 270 employees here at KVH Industries hope to deliver to you, our fellow stockholders.

Thank you for your continued support.

Best regards,



Martin Kits van Heyningen
President and Chief Executive Officer