



Annual Report 2005

KVH INDUSTRIES, INC.



Mobile Broadband Connections

Stabilization, Navigation, and Communications



A Letter from the President



Dear Fellow Stockholders,

2005 was a great year for KVH Industries. We achieved our near-term profitability goals, grew revenue by 14%, and positioned the company for future success by strengthening our product lines. We made great strides in our mission to bring live entertainment and information to the millions of video screens used in mobile applications on land and at sea. In doing so, we became an even more valuable contributor to efforts by market-leading companies like DIRECTV, Microsoft, and Cadillac to reach their mobile customers. Revitalized product lines strengthened our sales and market position and helped us recently ship our 100,000th mobile satellite antenna, a major milestone. Our innovative, affordable navigation, stabilization, and communications solutions for defense and commercial customers resulted in very strong defense revenues. This combination of factors enabled us to make 2005 the best year in the company's history.

Looking ahead, we are well-positioned to benefit from the increasing demand among consumers to remain connected to their preferred sources of entertainment and information when on the move. While much has been written about efforts to bring the Internet and TV programming to the tiny screens on cell phones, I believe a significant portion of this live mobile media will end up on screens mounted in vehicles and vessels. Our vision is to remain the dominant system provider connecting our customers and these screens to live content. We will make these connections using whatever services offer the most compelling consumer solution from both a price and performance perspective. At the same time, our government customers are depending more upon commercial services to meet their overwhelming needs to remain connected to the global information network. KVH will become an increasingly important partner in this effort by offering ruggedized, commercial solutions that can be deployed affordably to large numbers of mobile users.

Driving Growth through Innovative Technology and Services

During the past year, we aggressively pursued our goal to become the premier gateway for live, mobile media content in vehicles and vessels. In doing so, we continued to invest in the development of new technology and products that are setting the standards for reliability and performance in the marine, RV, and automotive industries. In 2005, we saw the benefits of these efforts as we entered a major new product introduction cycle.

In the marine market we faced the challenges of aging product lines and growing competition. In response, we developed advanced new systems with enhanced capabilities. Our High-Performance (HP™) line of marine TracVision® satellite TV systems was introduced in early 2005 and gained immediate acceptance among dealers and customers with vessels 40' and longer. We also set out to open a virtually untapped maritime market – vessels 25'-40' in length – that is more than four times the size of the market for larger boats. In late 2005, we unveiled the results of this R&D program – the TracVision M3, a small, simple, and powerful marine satellite TV system that offers the reception capabilities of larger antennas in a design ideally suited for smaller vessels. Together, these dynamic new products reaffirmed our position as the innovator and leader in marine satellite TV solutions, generated 76% of our total marine satellite TV sales in 2005, and led to record marine revenue both in North America and abroad.



That same strategy is now being applied to the RV marketplace, in which we faced similar challenging market conditions and competitive factors. To overcome these hurdles, we streamlined and reinvigorated our RV product family, culminating in the introduction of our TracVision R-series in late 2005. Leading the way is our groundbreaking TracVision R6, our first completely new RV satellite TV system in four years. I am confident that our new products, capabilities, and competitive prices will help us sustain our leadership position and re-establish our long-term growth trend in the RV market.

Our efforts in the automotive industry during 2005 were focused on enhancing the TracVision A5, continuing to build consumer demand for mobile satellite TV in the car, and developing new services and technology in collaboration with DIRECTV. The end results – strong year-over-year growth in TracVision A5 sales; a new relationship with Cadillac; increased visibility among automakers; major new initiatives to raise consumer awareness; and significant progress on new mobile receiver technology and mobile programming that we expect to introduce later in 2006.

Pursuing New Opportunities and Applications

In establishing our position as the premier gateway for live, mobile media content in vehicles and vessels, we knew that mobile satellite TV was only one part of the equation. Internet is another popular demand of our customers, and we took an important step to fill that need in January 2006 when we announced a new agreement with Microsoft to collaborate on mobile Internet solutions.

The initial product that will come of this new relationship is our TracNet™ 100 Mobile Internet Receiver with MSN TV Service. TracNet 100 expands our technological portfolio beyond mobile satellite systems to encompass new high-speed cellular data services. Thanks to our exclusive distribution agreement with MSN TV, we are now the only company to offer mobile high-speed Internet access for use on the television screens already in use on

boats, RVs, and cars. I believe the TracNet 100 has the potential to become a valuable complement to all of our existing satellite-based product lines.

Yet even as we fold new cellular services into our mobile consumer portfolio, we continue to seek opportunities to leverage our award-winning mobile satellite technology in other markets. This may include mobile military applications such as small, affordable, high-bandwidth satellite antenna systems suitable for military vehicles. I am very excited about the prospect of broadening our military portfolio and adding a new capability to a defense business that continues to show good strength – revenue up 61% in 2005 – thanks to our established TACNAV® tactical navigation and fiber optic gyro (FOG) products. By combining our expertise in communications and navigation technology, we plan to offer expanded connectivity with digital battlefield systems, enhanced mapping and display capabilities, and integrated convoy communication solutions. As a result, we are positioning KVH to meet emerging mission-critical requirements and support new vehicle platforms in both the U.S. and foreign militaries.



We continue to compete aggressively for a range of new military and commercial programs, including precision guidance, autonomous vehicle navigation, and optical platform and weapon stabilization. Our innovative FOGs, including the versatile DSP-3000, the new militarized DSP-4000, and our precision, FOG-based TG-6000 Inertial Measurement Unit (IMU) drove record fiber optic sales in 2005 and included highly visible production orders in support of the U.S. Navy's MK54 torpedo program and new stabilized remotely operated weapon systems. These products will serve as the backbone of our fiber optic business for some time to come, and with exciting new products in the pipeline, the future for our fiber optic technology looks bright.

Building Value for our Stockholders

Every program, new product, and initiative we pursue is directed at providing the best solutions to our customers and building a stronger company, which will, in turn, maximize long-term value for you, our stockholders. I believe the strategy we have is sound and that our positive results in 2005 illustrate this. We are growing our revenue and earnings. Our revitalized product lines and strategic relationships are clearly valuable competitive advantages. And we remain committed to using the best, most affordable, and most appropriate technologies now and in the future to support our customers. We are financially stable, and have the resources, talented employees, and management to successfully seize the opportunities ahead of us. I'm very optimistic about our prospects for 2006 and beyond as we strive to deliver consistent, long-term profitable growth and positive returns for you, our fellow stockholders.

Thank you for your continued support.

Best regards,

A handwritten signature in black ink, appearing to read 'M. Kits van Heyningen', is written over a white background.

Martin Kits van Heyningen
President & Chief Executive Officer

KVH Industries' Annual Report 2005

Board of Directors

Arent H. Kits van Heyningen
Chairman of the Board and Chief Scientist,
KVH Industries, Inc.

Mark S. Ain
Executive Chairman of the Board of Directors,
Kronos Incorporated

Stanley K. Honey
Chief Scientist,
Sportvision Systems, LLC

Martin A. Kits van Heyningen
President and Chief Executive Officer,
KVH Industries, Inc.

Robert W.B. Kits van Heyningen
Vice President, Research and Development,
KVH Industries, Inc.

Bruce J. Ryan
Private Consultant

Charles R. Trimble
Former President and Chief Executive Officer,
Trimble Navigation Limited

Senior Management

Martin A. Kits van Heyningen
President and Chief Executive Officer

Timothy Allen
Vice President, Finance and Contoller

Robert Balog
Vice President, Engineering
Satellite Products

Mads E. Bjerre-Petersen
Managing Director,
KVH Europe A/S

Jeffrey P. Brunner
Vice President, Operations,
Military and Fiber Optic Products

Daniel R. Conway
Vice President,
Business Development

James S. Dodez
Vice President, Marketing

Dr. Kalyan Ganesan
Vice President, Engineering
Defense Products

Jeffrey Greer
Vice President, Operations,
Satellite Products

Kelly Heitmann
Chief Information Officer

Robert W.B. Kits van Heyningen
Vice President,
Research and Development

Ian C. Palmer
Executive Vice President,
Satellite Sales

Eric J. Rudolph
Corporate Counsel

Patrick J. Spratt
Chief Financial Officer

Company Information

KVH Corporate Headquarters
50 Enterprise Center
Middletown, RI 02842-5279 U.S.A.
Tel: +1 401 847-3327
Fax: +1 401 849-0045

Defense and Fiber Optic Group
8412 W. 185th Street
Tinley Park, IL 60477 U.S.A.
Tel: +1 708 444-2800
Fax: +1 708 444-2801

KVH Europe A/S
Kokkedal Industripark 2B
2980 Kokkedal, Denmark
Tel: +011 45 45 160 180
Fax: +011 45 45 160 181

Annual Meeting

KVH Industries' annual meeting will be held at 11:00 a.m. ET on Wednesday, May 24, 2006, at Foley Hoag LLP offices in Boston, MA.

Independent Accountants

KPMG LLP
Providence, RI

Legal Counsel

Foley Hoag LLP
Boston, MA

Transfer Agent

Computershare
P.O. Box 43023
Providence, RI 02940-3023 U.S.A.
Tel: +1 877 282-1169
www.computershare.com

Stock Listing

The Company's common stock is traded on the Nasdaq National Market under the symbol "KVHI."

Investor Relations

To obtain a copy of the Company's Form 10-K without charge, or to receive additional copies of this report or other financial information, contact:

KVH Industries, Inc.
Investor Relations
50 Enterprise Center
Middletown, RI 02842-5279 U.S.A.
Tel: +1 401 847-3327
E-mail: ir@kvh.com
<http://investors.kvh.com>

Other financial and investor information is available on KVH's website at <http://investors.kvh.com>.

Stock Information

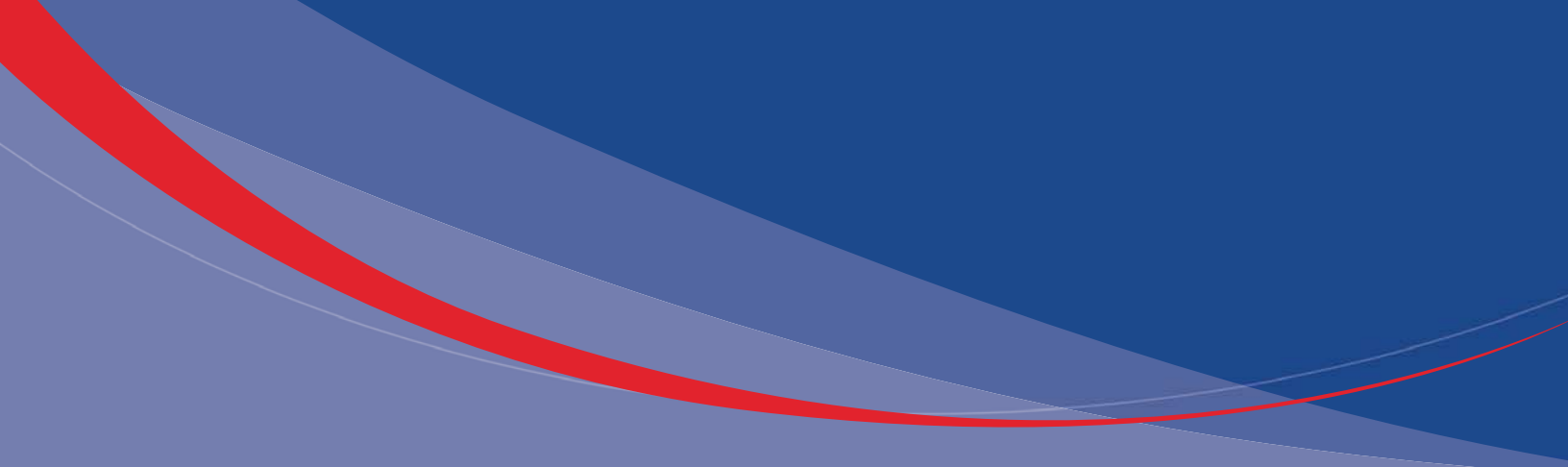
The following table sets forth, for the periods indicated, the high and low prices per share of the Company's common stock as reported on the Nasdaq National Market.

2005	High	Low
Fourth Quarter	\$ 10.00	\$ 8.77
Third Quarter	10.85	9.00
Second Quarter	11.05	8.54
First Quarter	13.23	8.81

The company has never paid cash dividends on its common stock and has no present plan to do so.

As of March 31, 2006, the company had 14,750,463 shares outstanding.

"Safe harbor" statement under the Private Securities Litigation Reform Act of 1995: In addition to historical facts, this annual report contains forward-looking statements. Forward-looking statements are merely our current predictions of future events. For example, forward-looking statements include statements regarding our financial and product development goals for 2006, anticipated revenue growth, anticipated profitability, anticipated orders for our satellite communications and military products, and anticipated improvements in our product margins and competitive position. These statements are inherently uncertain, and actual events could differ materially from our predictions. Important factors that could cause actual events to vary from our predictions include the unpredictability of the emerging market, as well as consumer demand, for mobile satellite communications products in automobiles; failure to gain the acceptance of or orders from automotive manufacturers for the TracVision A5; the emergence of alternative technology and services that may compete with or displace wireless mobile Internet services with regard to range and cost; the unpredictability of purchasing schedules and priorities of the relatively small number of customers for our defense products; potential reductions in our overall gross margins in the event of a general shift in product mix more strongly toward our mobile satellite communications products; and our dependence on third-party satellite networks for programming and satellite services. These and other factors are discussed in more detail in this annual report under the headings "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", and "Item 1A.-Risk Factors." We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to review carefully the risk factors described in this annual report and in the other documents that we file with the Securities and Exchange Commission. You can read these documents at www.sec.gov.



002CS - 11175



www.kvh.com

