KVH INDUSTRIES INC \DE\
Form 424B5
February 10, 2004

Table of Contents

Filed pursuant to Rule 424(b)(5)
Registration No. 333-110802
and Registration No. 333-112646

PROSPECTUS SUPPLEMENT
(To Prospectus dated December 5, 2003)

2,750,000 Shares

Common Stock

We are offering 2,750,000 shares of our common stock. Our common stock is traded on the Nasdaq National Market under the symbol KVHI. On February 9, 2004, the last reported sale price for our common stock on the Nasdaq National Market was $19.13 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-5.

	Per Share	Total
Public Price	$18.75	$51,562,500
Underwriting Discount	$ 1.02	$ 2,805,000
Proceeds, before expenses, to KVH Industries, Inc.	$17.73	$48,757,500

KVH has granted the underwriters the right to purchase up to an additional 412,500 shares of its common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus supplement and accompanying prospectus are truthful or complete. It is illegal for any person to tell you otherwise.

Sole Book-Running Manager
Needham & Company, Inc.

Co-Lead Manager
SG Cowen

Raymond James

C.E. Unterberg, Towbin

The date of this prospectus supplement is February 10, 2004.

Table of Contents

TABLE OF CONTENTS

TABLE OF CONTENTS

You should rely only on the information in this prospectus supplement, the accompanying prospectus and the documents we incorporated by reference. Neither we nor the underwriters have authorized anyone to provide you with different information. The information in these documents is accurate only as of their respective dates, regardless of the time of delivery of any document or of any sale of common stock. Our business, financial condition, results of operations and prospects may have changed since the date on any document. We are making offers to sell and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. You should not consider this prospectus supplement and the accompanying prospectus to be an offer to sell, or a solicitation of an offer to buy, shares of common stock if the person making the offer or solicitation is not qualified to do so or if it is unlawful for you to receive the offer or solicitation.

The KVH logo, Azimuth, Datascope, E Core, Sailcomp, TACNAV, Tracphone and TracVision are registered trademarks of KVH Industries, Inc., and T FOG and TracNet are trademarks of KVH Industries, Inc. All other trademarks or trade names appearing in this prospectus supplement or the accompanying prospectus are the property of their respective holders.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC. This prospectus supplement describes the specific details regarding this offering, including the price, the amount of common stock being offered and the risks of investing in our common stock. The accompanying prospectus provides more general information. To the extent information in this prospectus supplement is inconsistent with the accompanying prospectus or any of the documents incorporated by reference into the accompanying prospectus, you should rely on this prospectus supplement. You should read both this prospectus supplement and the accompanying prospectus together with the additional information about us described in the accompanying prospectus in the section entitled Where You Can Find More Information.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights only some of the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. You should read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the section entitled Risk Factors beginning on page S-5 regarding our company and the common stock being sold in this offering. All references to we, us, our, and similar terms refer to KVH Industries, Inc. and its subsidiary unless the context requires otherwise.

Our Company

We develop, manufacture and market mobile satellite communications products for the automotive, recreational vehicle and marine markets, and navigation, guidance and stabilization products for defense markets. Our expertise in mobile satellite antenna, digital compass and fiber optic gyroscope technologies has enabled us to lower the cost, decrease the size and improve the performance of our products. Our research and development, manufacturing and quality control capabilities have enabled us to meet the demanding standards of our military, consumer and commercial customers for performance and reliability. This combination of factors has allowed us to increase our penetration of existing markets and enter new markets.

We are a leading provider of mobile satellite communications products that enable customers to receive live digital television, telephone and Internet services in their automobiles, recreational vehicles and marine vessels while in motion. Our mobile satellite communications products use sophisticated robotics, stabilization and control software, sensing technologies and advanced antenna designs to:

- track satellites from a moving platform;
- reacquire satellite signals after blockage; and
- offer antenna sizes compatible with a broad variety of vehicles and vessels.

In September 2003, we introduced our TracVision A5 low-profile antenna system, which uses our hybrid phased-array antenna technology to provide in-motion satellite TV reception throughout the continental United States in minivans, SUVs and other passenger vehicles using the DIRECTV service. The product of almost three years of research and development, our TracVision A5 is the first commercially available mobile satellite TV antenna to offer a combination of price, size and performance that makes it practical for use on minivans, SUVs and other passenger vehicles. We intend to use the TracVision A5 to capitalize on the growing number of video entertainment systems found in these vehicles and the increasing demand for live content.

We sell our TracVision, Tracphone and TracNet mobile satellite communications products through an extensive international network of retailers, distributors and dealers.

Our defense products include tactical navigation systems that provide uninterrupted navigation and pointing information in a broad range of military vehicles, including Humvees and light armored vehicles. We also offer precision fiber optic gyro-based systems that help stabilize platforms such as gun turrets and radar units and also provide guidance for munitions. Our digital compass and fiber optic gyro products address the increasing reliance by military forces on technology to improve the coordination of their field operations and the accuracy of their munitions delivery. Our defense products:

- enable constant access to reliable navigation information without relying on the global positioning system;
- integrate navigation information from multiple devices on military vehicles; and
- provide low-cost precision pointing and stabilization.

In September 2003, our M100 GMENS, a digital compass-based battlefield navigation system specifically designed for non-turreted vehicles, was designated by the U.S. Special Operations Command

Table of Contents

as a standard product. We believe this designation will facilitate future domestic and international sales of this product. In October 2003, we introduced our newest tactical-grade fiber optic gyro, the DSP-3000, as well as the TG-6000, our first fiber optic gyro-based inertial measurement unit for use in aviation, guided munitions and precision navigation applications.

We sell our defense products directly to U.S. and allied governments and government contractors, as well as through an international network of independent sales representatives.

Our goals are to enhance our position as a leading provider of mobile satellite communications products and expand our presence in the global market for lower cost, high-performance defense navigation, guidance and stabilization products. To achieve these objectives, we intend to pursue the following strategies:

- capitalize on our engineering expertise to continue to reduce the size and cost of our products;
- leverage new technologies to further penetrate existing markets;
- expand our distribution network for the automotive market, including arrangements with automobile manufacturers;
- invest in additional functionality for our products; and
- address the global military need for reliable navigation and guidance products.

Our principal executive offices are located at 50 Enterprise Center, Middletown, Rhode Island 02842, and our telephone number is (401) 847-3327. Our website address is www.kvh.com. The information on our website is not a part of this prospectus supplement or the accompanying prospectus.

Recent Financial Results

We have conducted a preliminary analysis of our results of operations for the three months ended December 31, 2003. Our preliminary, unaudited results suggest that we will record quarterly revenues of approximately \$15.6 million to \$15.9 million and a net loss in the range of \$0.11 per share to \$0.14 per share for the three-month period.

Table of Contents

The Offering

Common stock offered by KVH Industries, Inc.	2,750,000 shares
Common stock to be outstanding after this offering	14,397,578 shares
Use of proceeds	We intend to use approximately $2.0 million of the net proceeds we receive from this offering to repay indebtedness and the remainder for general corporate purposes, including capital expenditures, working capital and possible acquisitions.
Nasdaq National Market symbol	KVHI

The total number of shares of common stock to be outstanding after this offering is based on 11,647,578 shares outstanding as of February 9, 2004, and excludes:

- 958,432 shares of common stock issuable upon exercise of stock options outstanding under our stock plans, at a weighted average exercise price of $8.63 per share;
- 1,110,735 additional shares of common stock reserved for future issuance under our stock plans; and
- 85,964 additional shares of common stock reserved for future issuance under our employee stock purchase plan.

Unless otherwise stated, the information in this prospectus supplement assumes:

- no exercise of outstanding options to purchase shares of common stock; and
- no exercise of the underwriters over-allotment option to purchase up to 412,500 additional shares of common stock from us.

Table of Contents

Summary Consolidated Financial Data

(in thousands, except per share data)

You should read the following summary consolidated financial data together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes in this prospectus supplement.

The As adjusted column in our consolidated balance sheet data as of September 30, 2003 reflects the sale of the 2,750,000 shares of common stock we are offering at the public offering price of $18.75 per share, after deducting the underwriting discount and estimated offering expenses payable by us.

	Years ended December 31,					Nine months ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
						(unaudited)	
Consolidated Statement of Operations Data:							
Net sales	$ 20,630	$ 22,822	$ 29,954	$ 32,707	$ 47,694	$ 34,718	$ 41,018
Cost of goods sold	14,100	15,034	18,621	20,255	26,505	19,516	22,681
Gross profit	6,530	7,788	11,333	12,452	21,189	15,202	18,337
Operating expenses:							
Research and development	3,991	4,199	3,902	7,885	8,854	6,997	6,566
Sales and marketing	4,470	5,471	6,322	8,412	9,951	7,410	8,150
General and administrative	2,225	2,112	2,221	2,514	3,594	2,383	3,467
Operating earnings (loss)	(4,156)	(3,994)	(1,112)	(6,359)	(1,210)	(1,588)	154
Other income (expense):							
Interest income (expense), net	57	(40)	(192)	140	(119)	(88)	(115)
Other income (expense)	225	83	(197)	(42)	(62)	(47)	(68)
Loss before income tax expense (benefit)	(3,874)	(3,951)	(1,501)	(6,261)	(1,391)	(1,723)	(29)
Income tax expense (benefit)	(1,608)	(1,254)	(560)		86	86	(184)
Net income (loss)	$ (2,266)	$ (2,697)	$ (941)	$ (6,261)	$ (1,477)	$ (1,809)	$ 155
Per share information:							
Net earnings (loss) per common share basic	$ (0.32)	$ (0.37)	$ (0.12)	$ (0.61)	$ (0.13)	$ (0.16)	$ 0.01
Net earnings (loss) per common share diluted	$ (0.32)	$ (0.37)	$ (0.12)	$ (0.61)	$ (0.13)	$ (0.16)	$ 0.01
Weighted average number of shares outstanding:							
Basic	7,124	7,235	7,628	10,217	11,040	11,018	11,352
Diluted	7,124	7,235	7,628	10,217	11,040	11,018	11,846

	September 30, 2003	
	Actual	As adjusted
	(unaudited)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 7,573	$ 55,630
Working capital	17,867	65,925
Total assets	36,400	84,457
Long-term debt excluding current portion	2,531	2,531
Total stockholders equity	26,661	74,718

Table of Contents

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, in evaluating our business before purchasing any of our common stock. If any of these risks, or other risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition and results of operations could be adversely affected. If that happens, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to our Business

We may not be profitable in the future.

We have a limited history of profitable operations. Although we generated net income of $155,000 in the nine months ended September 30, 2003, we expect to incur a loss for the year ended December 31, 2003. We may not be profitable in the future. We incurred net losses of $1.5 million in 2002, $6.3 million in 2001 and $941,000 in 2000, and as of September 30, 2003, we had an accumulated deficit of $9.7 million.

The market for our mobile satellite TV products for minivans, SUVs and other passenger vehicles is new and emerging, and our business may not grow as we expect.

Our TracVision A5 is the first commercially available, low-profile mobile satellite TV antenna practical for use on minivans, SUVs and other passenger vehicles, and we began shipping the TracVision A5 in September 2003. Accordingly, the market for this product is new and emerging. Consumers may not respond favorably to live satellite TV in passenger vehicles, and the market may not accept the TracVision A5. The early stage of development of this market makes it difficult for us to predict customer demand accurately.

We believe the success of the TracVision A5 will depend upon consumers assessment of whether or not it meets their expectations for performance, quality, price and design. For example, the TracVision A5 is designed only for use on open roads in the continental United States where there is a clear view of the transmitting satellite in the southern sky. Among the factors that could affect the success of the TracVision A5 are:

- the extent to which customers perceive mobile satellite TV services as a luxury or a necessary convenience;
- the extent to which customers prefer live TV over recorded media;
- the performance, price and availability of competing or alternative products relative to the TracVision A5;
- customers willingness to pay monthly fees for satellite television service;
- the adoption of laws or regulations that restrict or ban live television or other video technology in vehicles;
- difficulties or inconveniences associated with scheduling installation at the point of sale; and
- our limited experience with marketing a product to the automotive market, which is substantially larger and more fragmented than our other markets.

We expect that others will introduce competing mobile satellite TV antennas for automobiles.

Our TracVision A5 is the first commercially available, low-profile mobile satellite TV antenna for use on minivans, SUVs and other passenger vehicles. Any advantage we may have may erode as others enter this market. In January 2004, Delphi Corp., a prominent supplier of automotive parts, demonstrated a

Table of Contents

prototype mobile satellite TV antenna that can be integrated into the roof of a luxury SUV. The product, which Delphi announced would be commercialized in coming years, includes antenna technology developed by Motia, Inc., a semiconductor company focused on enabling antennas for wireless systems providers. Motia expects to offer a separate product for the automotive after-market. MotoSAT has announced its intention to introduce a low-profile phased-array satellite antenna manufactured by Skygate in the second quarter of 2004. Winegard has also announced a low-profile in-motion satellite TV antenna compatible with DIRECTV. ERA Technology Ltd. has announced that it has developed a low-profile scanning antenna allowing direct broadcast satellite TV services. These satellite antenna products may have a slightly lower profile than the TracVision A5 s five-inch profile, and customers may prefer antennas integrated into the vehicle roof or antennas with a lower profile. In addition, Delphi and SIRIUS Satellite Radio announced in January 2004 that they intend to introduce in 2005 a service offering several video channels through SIRIUS existing satellite radio system. Customers may delay purchasing the TracVision A5 in anticipation of the release of any of these products. Competition from any of these products could impair our ability sell the TracVision A5 and may force us to reduce the price of the TracVision A5. Moreover, Delphi s long-term relationships with automobile manufacturers may give it a significant advantage in selling mobile satellite TV antennas to those manufacturers.

We must achieve significant cost reductions for the TracVision A5 to reach our targeted profit margins.

Initial product profit margins for the TracVision A5 have been low. To reach our targeted profit margins, we must significantly reduce our manufacturing costs for the TracVision A5. We may be unable to achieve the cost reductions necessary to increase our overall profit margins. Although we have already commenced a cost reduction program that includes volume purchasing discounts and redesigning certain components using lower cost materials and processes, technological or other challenges may prevent us from achieving all of the necessary cost reductions. Moreover, if the price of the TracVision A5 is not attractive to a broad range of customers, we may be forced to lower the price, which would further impair our product profit margins unless we are able to achieve corresponding cost reductions.

Customers for TACNAV and our other defense products include the U.S. military and foreign governments, whose purchasing schedules and priorities can be unpredictable.

We sell TACNAV and our other defense products to the U.S. military and foreign military and government customers. These customers have unusual purchasing requirements, which can make sales to those customers unpredictable. Factors that affect their purchasing decisions include:

- new military and operational doctrines that affect military equipment needs;
- changes in tactical navigation requirements;
- changes in modernization plans for military equipment;
- priorities for current battlefield operations;
- delays in military procurement schedules;
- allocation of funding for military programs;
- delays in the testing and acceptance of our products; and
- sales cycles that are long and difficult to predict.

These factors can cause substantial fluctuations in sales of TACNAV and our other defense products from period to period. Moreover, TACNAV and most of our other defense products must meet military quality standards, and our products may not continue to meet existing or more rigorous standards adopted in the future. Any failure to meet military contract specifications may produce delays as we attempt to improve our design, development, manufacturing or quality control processes. Furthermore, government customers and their contractors can generally cancel orders for our products for convenience. Even under firm orders with government customers, funding must usually be appropriated in the budget process in order for the government to complete the contract. The cancellation of or failure to fund orders for our products could substantially reduce our net sales.

Only a few customers account for a substantial portion of our defense revenues, and the loss of any of these customers would substantially reduce our net sales.

We derive a substantial portion of our defense revenues from a small number of customers. In the nine months ended September 30, 2003, our top four customers, including the U.S. military as a single customer, accounted for 68.0% of our net sales attributable to defense products and 21.5% of our total net sales. In the year ended December 31, 2002, our top four customers, including the U.S. military as a single customer, accounted for 53.5% of our net sales attributable to defense products and 21.3% of our total net sales. Direct sales to the U.S. military accounted for 11.0% of our total net sales in the nine months ended September 30, 2003 and 10.7% in the year ended December 31, 2002. The loss of any of these customers would substantially reduce our net sales and results of operations and could seriously harm our business.

Sales of TACNAV and our other defense products generally consist of a few large orders, and the delay or cancellation of a single order would substantially reduce our net sales.

Unlike our mobile satellite communications products, TACNAV and our other defense products are purchased through orders that typically range in size from several hundred thousand dollars to over one million dollars. As a result, the delay or cancellation of a single order could materially reduce our net sales and results of operations. Because our defense products typically have higher margins than our mobile satellite communications products, the loss of a large order for defense products could have a disproportionately adverse effect on our results of operations.

Shifts in our product mix toward our mobile satellite communications products may reduce our overall gross margins.

In recent periods, sales of our mobile satellite communications products have grown faster than sales of our defense products. We currently expect that our mobile satellite communications products will comprise an increasing percentage of our net sales. Because our mobile satellite communications products have historically had lower product margins than our defense products, we expect that these trends are likely to cause our overall gross margins to decline.

We depend on single manufacturing lines for our products, and any significant disruption in production could impair our ability to deliver our products.

We currently manufacture and assemble our products using individual production lines for each product category. We have experienced manufacturing difficulties in the past, and any significant disruption to one of these production lines will require time either to reconfigure and equip an alternative production line or to restore the original line to full capacity. Some of our production processes are complex, and we may be unable to respond rapidly to the loss of the use of any production line. For example, our production process uses some specialized equipment and custom molds that may take time to replace if they malfunction. In that event, shipments would be delayed, which could result in customer or dealer dissatisfaction, loss of sales and damage to our reputation. Finally, we have only a limited capability to increase our manufacturing capacity in the short term. If short-term demand for our products exceeds our manufacturing capacity, our inability to fulfill orders in a timely manner could also lead to customer or dealer dissatisfaction, loss of sales and damage to our reputation.

We depend on sole or limited source suppliers, and any disruption in supply could impair our ability to deliver our products on time or at expected cost.

We obtain many key components for our products from third-party suppliers, and in some cases we use a single or a limited number of suppliers. For example, we obtain plastic components for the

Table of Contents

TracVision A5 from a single supplier. Any interruption in supply could impair our ability to deliver our products until we identify and qualify a new source of supply, which could take several weeks, months or longer and could increase our costs significantly. In general, we do not have written long-term supply agreements with our suppliers but instead purchase components through purchase orders, which exposes us to potential price increases and termination of supply without notice or recourse. We do not carry significant inventories of product components, which could magnify the impact of the loss of a supplier. If we are required to use a new source of materials or components, it could also result in unexpected manufacturing difficulties and could affect product performance and reliability.

Any failure to maintain and expand our third-party distribution relationships may limit our ability to penetrate markets for mobile satellite communications products.

We market and sell our mobile satellite communications products through an international network of independent retailers, chain stores and distributors, as well as to manufacturers of marine vessels and recreational vehicles. If we are unable to maintain or increase the number of our distribution relationships, it could significantly reduce or limit our net sales. In addition, our distribution partners may sell products of other companies, including competing products, and are not required to purchase minimum quantities of our products. Moreover, our distributors may operate on low product margins and could give higher priority to products with higher margins than ours.

We depend on others to provide programming for our TracVision products, Internet access for our TracNet products and telephone, fax and data services for our Tracphone products.

Our TracVision products include only the equipment necessary to receive satellite television services; we do not broadcast satellite television programming. Instead, customers must obtain programming from another source. We currently offer marine and land mobile TracVision products compatible with the DIRECTV and DISH Network services in the continental United States, the ExpressVu service in Canada and various other regional services in other parts of the world. Our initial TracVision A5 product is compatible only with the DIRECTV service in the continental United States. If customers become dissatisfied with the programming, pricing, service, availability or other aspects of these satellite television services or if any one or more of these services becomes unavailable for any reason, we could suffer a substantial decline in sales of our TracVision products. The companies that operate these services have no obligation to inform us of technological or other changes that could impair the performance of our TracVision products.

Similarly, our Tracphone and TracNet products currently depend on satellite services provided by third parties. We rely on Inmarsat for satellite communications services for our Tracphone products. We rely on Bell ExpressVu for TracNet service in North America and Telemar for TracNet service in Europe. We also rely on Globalstar LP for the satellite return link for TracNet. In February 2002, Globalstar filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In November 2003, the U.S. Bankruptcy Court in Delaware approved the acquisition of the Globalstar business by Thermo Capital Partners LLC. Globalstar announced that the transfer of some assets has already occurred and that it expects the entire process to be completed upon receipt of U.S. regulatory approval, which it expects will occur in the first quarter of 2004. There is no assurance that this acquisition will be completed or that the buyer will operate the Globalstar business in a manner that will allow us to continue to use Globalstar services as we currently do.

If Globalstar or any of our other vendors is unable to fulfill its obligations, we would need to seek an alternate supplier. In that case, we may be required to retrofit or upgrade hardware and software as necessary to ensure the continued operation of the affected products. We may incur significant delays and expenses in our efforts to make the necessary changes, and those efforts may be unsuccessful. Moreover, we may not be successful in identifying and entering into appropriate agreements with replacement suppliers on commercially reasonable terms, which would impair our ability to offer the affected products. Similarly, we may lose the goodwill of existing customers if any currently installed products cease to work for any extended period. Any such outcome could lead to a substantial reduction in sales.

Table of Contents

Our mobile satellite communications products depend on the availability of third-party satellites, which face significant operational risks and could fail earlier than their expected useful lives.

Our mobile satellite communications products depend on the availability of programming and services broadcast through satellites owned by third parties. The unexpected failure of a satellite could disrupt the availability of programming and services, which could reduce the demand for, or customer satisfaction with, our products. These satellites face significant operational risks while in orbit. These risks include malfunctions that can occur as a result of satellite manufacturing errors, problems with power or control systems and general failures resulting from the harsh space environment. Moreover, each satellite has a limited useful life, and the satellite providers make no guarantees that the planned backup systems and capacity will be sufficient to support these satellite services in the event of a loss or reduction of service. We cannot assure you that satellite services compatible with our products will continue to be available or that such services will continue to be offered at reasonable rates. The accuracy or availability of satellite signals may also be limited by ionospheric or other atmospheric conditions, intentional or inadvertent signal interference, or intentional limitations on signal availability imposed by the satellite provider. A reduction in the number of operating satellites on any system, the inoperability of any key satellite or the failure of any key satellite or satellites to provide an accurate or available signal could impair the utility of our products or the growth of current and additional market opportunities.

Our net sales and operating results could decline due to general economic trends, declines in consumer spending and seasonality.

Our operating performance depends significantly on general economic conditions. Net sales of our mobile satellite communications products are largely generated by discretionary consumer spending, and demand for these products has demonstrated slower growth than we anticipated as a result of recent global economic conditions. Consumer spending tends to decline during recessionary periods and may decline at other times. Consumers may choose not to purchase our mobile satellite communications products due to a perception that they are luxury items. If global and regional economic conditions fail to improve or deteriorate, demand for our products could be adversely affected. In addition, sales of our mobile satellite communications products for the marine market have historically been higher during the first and second fiscal quarters, when the recreational marine season gets underway, than in the third and fourth fiscal quarters. Sales of our mobile satellite communications products in the first and second fiscal quarters represented 54.1%, 55.2% and 53.1% of our annual net sales in 2000, 2001 and 2002, respectively.

If we are unable to improve our existing mobile satellite communications and defense products and develop new, innovative products, our sales and market share may decline.

The markets for mobile satellite communications products and defense navigation, mobilization and stabilization products are each characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations and evolving industry standards. If we fail to make innovations in our existing products and reduce the costs of our products, our market share may decline. Products using new technologies, or emerging industry standards, could render our products obsolete. If our competitors successfully introduce new or enhanced products that eliminate technological advantages our products may have in a certain market or otherwise outperform our products, or are perceived by consumers as doing so, we may be unable to compete successfully in the markets affected by these changes. For example, other companies have recently announced their intentions to offer low-profile in-motion satellite antennas in the near future. These products will compete with our TracVision A5 and may offer more attractive performance, pricing and other features.

If we cannot effectively manage our growth, our business may suffer.

Recently, we have expanded our operations to pursue existing and potential market opportunities. This growth has placed, and is expected to continue to place, a strain on our personnel, management, financial and other resources. If we fail to manage our growth properly, we may incur unnecessary expenses and the efficiency of our operations may decline. In order to pursue successfully the opportunities presented by the emerging TracVision A5 market, we must continue to expand our operations. To manage our growth effectively, we must, among other things:

- upgrade and expand our manufacturing facilities and capacity in a timely manner;
- successfully attract, train, motivate and manage a larger number of employees for manufacturing, sales and customer support activities;
- control higher inventory and working capital requirements; and
- improve the efficiencies within our operating, administrative, financial and accounting systems, procedures and controls.

We may be unable to hire and retain the skilled personnel we need to expand our operations.

To meet our growth objectives, we must attract and retain highly skilled technical, operational, managerial, and sales and marketing personnel. In particular, we are seeking to expand our senior management by hiring a chief information officer. Our location, in Middletown, Rhode Island, may prevent us from attracting the necessary personnel, and if we fail to attract, and retain, the necessary personnel, we may be unable to achieve our business objectives and may lose our competitive position, which could lead to a significant decline in net sales. We face significant competition for these skilled professionals from other companies, research and academic institutions, government entities and other organizations.

Our success depends on the services of our executive officers and key employees.

Our future success depends to a significant degree on the skills and efforts of Martin Kits van Heyningen, our co-founder, president and chief executive officer. If we lost the services of Mr. Kits van Heyningen, our business and operating results could be seriously harmed. We also depend on the ability of our other executive officers and members of senior management to work effectively as a team. None of our senior management or other key personnel is bound by an employment agreement. The loss of one or more of our executive officers or senior management members could impair our ability to manage our business effectively.

Competition may limit our ability to sell our recreational vehicle and marine satellite communications products and defense products.

The mobile satellite communications markets and defense navigation, guidance and stabilization markets in which we participate are very competitive, and we expect this competition to persist and intensify in the future. We may not be able to compete successfully against current and future competitors, which could impair our ability to sell our products. To remain competitive, we must enhance our existing products and develop new products, and we may have to reduce the prices of our products. Moreover, new competitors may emerge, and entire product lines may be threatened by new technologies or market trends that reduce the value of those product lines.

In the defense navigation, guidance and stabilization markets, we compete primarily with Honeywell International Inc., Kearfott Guidance & Navigation Corporation, Leica Microsystems AG, Northrop Grumman Corporation and Smiths Group PLC. In the market for mobile satellite communications products, we compete with a variety of companies. In the land mobile market for satellite TV communications equipment, we compete directly with King Controls, MotoSAT, TracStar Systems, Inc. and Winegard Company. In the land mobile market for Internet communications equipment, we compete directly with Hughes Electronics Corp. s DIRECWAY service and indirectly with cellular telephone service providers, whose services are substantially cheaper than TracNet. In the marine market for satellite TV communications equipment, we compete with Navigator Technology, Orbit Satellite Television & Radio Network and Sea Tel. In the marine market for telephone, fax, data and Internet communications equipment, we compete with Furuno Electric Co., Ltd., Globalstar LP, Iridium Satellite LLC, Japan Radio Company, Nera ASA and Thrane & Thrane A/ S.

Table of Contents

Among the factors that may affect our ability to compete in our markets are the following:

- many of our primary competitors are well established companies that have substantially greater financial, managerial, technical, marketing, personnel and other resources than we do;
- product improvements or price reductions by competitors may weaken customer acceptance of our products; and
- our competitors may have lower production costs than we do, which may enable them to compete more aggressively in offering discounts and other promotions.

Our international business operations expos