

Dear Fellow Investor,

During 2003, KVH Industries strengthened its position in its mobile satellite communications and defense markets by introducing innovative products and increasing its market penetration. We also took the lead in an entirely new market category – satellite TV in automobiles – as our pioneering TracVision[®] A5 made it possible for consumers to receive live DIRECTV[®] satellite TV service in their cars for the very first time.

Our investments in innovative new technology have enabled us to offer our customers an array of new products that support their growing need for navigation and communications virtually anywhere they go. For 2003, the result was record revenues, a versatile family of products and services, and established leadership positions in our key business areas. And while we continue to face challenges, the fundamentals of the company remain strong, and we are prepared for the opportunities that lie ahead.

Mobile Satellite Communications

Our mobile satellite communications business served as the engine for KVH's revenue growth in 2003. Continued efforts to strengthen our leadership position in the recreational vehicle and marine markets drove satellite revenues up 47% for the year and contributed to a compound annual growth rate of 40% over the past five years. Our reputation and partnerships within these industries remain strong as evidenced by multiple "2003 Vendor of the Year" awards and our TracVision and Tracphone[®] systems being named best products in their class for the sixth consecutive year by the National Marine Electronics Association.

With an expanded portfolio of satellite TV and communications products, KVH now provides a mobile satellite solution for virtually any vehicle, vessel, or budget. Nowhere is this more evident than our entry into the automotive market with the successful launch of our TracVision A5 low-profile satellite TV system for passenger vehicles. More than three years ago, we recognized the emerging trend towards in-vehicle video and set out to be the first company to offer a truly affordable and practical means to bring live satellite TV into the car. I watched with tremendous pride as the first TracVision A5 – the result of extensive research and investment – left our factory on September 24, 2003, and headed for our new national retailer network.

Now we intend to capitalize on our position as the first to market with this ground-breaking technology. We are aggressively pursuing joint marketing strategies with key satellite TV service providers. We are expanding beyond aftermarket sales to include

new distribution channels, such as car dealerships, limousine fleets, conversion vehicles, buses, and RVs. And technologically, we continue to work towards a smaller, less expensive system capable of being mounted within the roof of a vehicle – a critical step for acceptance by auto manufacturers.

The enthusiastic feedback from our dealers, consumers, and the media has confirmed our belief that solid demand exists for live satellite TV in cars and validates our decision to devote the necessary resources to make it a reality. By the end of December 2003, the TracVision A5 had made its mark as the single most successful product launch in KVH's history.

Defense Navigation and Guidance

Fiscal 2003 saw the consolidation of our Tactical Navigation and Fiber Optic product groups into a single, integrated Defense unit. This reflects the growing integration and interdependency of our digital compass and fiber optic technologies, and resulted in valuable efficiencies in sales and manufacturing. While combined defense revenues declined slightly from our record results in 2002, we achieved several critical milestones and product introductions throughout the year that are enabling us to pursue a broader spectrum of customers and new markets.

Our TACNAV[®] vehicle navigation products have continued to prove themselves in the field, providing unjammable navigation data for U.S. and allied troops carrying out counter-terrorism efforts in Afghanistan as well as combat operations during Operation Iraqi Freedom. In September 2003, the potential market for our TACNAV family expanded significantly following the announcement that the U.S. Special Operations Command (SOCOM) accepted our TACNAV Light system as a standard U.S. Army product. The newly designated TACNAV M100 Ground Mobility Enhanced Navigation System is now being fielded for use on the SOCOM vehicle fleet.

The expansion of the M100's capabilities to include a satellite communications link to integrated battle management systems will offer a new level of versatility to our TACNAV family and, in the words of a U.S. army officer who observed our recent demonstration, "[TACNAV] has the potential to significantly impact the way we [the U.S. Army] obtain positioning data." We still have work to do to complete the transition of this enhanced M100 from the proof-of-concept stage to full production, but I am confident in our ability to execute this and other critical product enhancements and capitalize on them in the competitive defense marketplace.

We also made significant progress in the fiber optic arena during 2003. With the introduction of our DSP-3000 tactical-grade fiber optic gyro (FOG) in the fall of 2003, we fulfilled our promise to bring a smaller, less expensive, and higher performance FOG to the marketplace. KVH's Digital Signal Processing (DSP)-class FOGs are now integral components in our own tactical navigation systems as well as our new TracVision G8. Both the defense and commercial industries have shown great interest in these FOGs due to their outstanding performance, accuracy, and cost-effective design.

The introduction of our TG-6000 inertial measurement unit (IMU) in October 2003 represented the successful execution of another major strategic goal – to offer more highly integrated, higher value systems as opposed to single-axis sub-assemblies. Using our DSP gyro technology, this compact, three-axis, fiber optic guidance package supports a wide variety of applications ranging from missiles and drones, to helicopters and torpedoes – essentially anything that moves in three dimensions. Just as important as the product introduction was its almost immediate acceptance in the defense marketplace, highlighted by its selection as a component within the new U.S. Navy Mark 54 torpedo. Together, the DSP-3000 FOG and the TG-6000 IMU illustrate how our fiber optic technology has matured, equipping us with powerful, versatile, and competitively priced solutions to the demanding needs of both military and commercial customers.

Financial Performance

We continued to show consistent revenue growth throughout the year. We also made good progress in improving our product costs, operating expenses, and the management of our balance sheet through the first nine months of 2003, though we did experience short-term setbacks in the fourth quarter due to lower than expected military orders and the introduction costs of the TracVision A5. Fiscal 2003 revenue was \$56.7 million, up 19% from 2002, and we recorded a loss of \$0.13 per share for the year, equal to our loss for 2002.

Looking Ahead

For 2004, our challenge is to use our strong market positions and leading technology to accelerate both revenues and profits. KVH's management team, board of directors, and employees are all committed to maximizing shareholder value while ensuring that the highest standards of integrity, including timely, accurate, and transparent financial reporting, are maintained.

Our vibrant base business in marine and RV mobile satellite systems, together with the TracVision A5 and our new defense products, represent significant growth potential going forward. I am confident that our ability to pursue these opportunities, to capitalize on investments, and to take a measured risk when necessary will ultimately benefit KVH, our employees, our partners, and you, our shareholders.

I invite you to follow our progress and get additional information about KVH by regularly visiting our web site, www.kvh.com. 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