

KVH INDUSTRIES INC \DE\
Form DEF 14A
April 18, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

KVH INDUSTRIES, INC.

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No Fee Required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

Edgar Filing: KVH INDUSTRIES INC \DE\ - Form DEF 14A

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

KVH Industries, Inc.

Notice of Annual Meeting of Stockholders

to be held on May 25, 2005

and

Proxy Statement

IMPORTANT

Please mark, sign and date your proxy
and promptly return it in the enclosed envelope or
vote your proxy over the Internet or by telephone.

This proxy statement and form of proxy are first being mailed to stockholders on or about April 18, 2005.

Table of Contents

KVH Industries, Inc.
50 Enterprise Center
Middletown, RI 02842-5279

April 18, 2005

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of KVH Industries, Inc. Our meeting will be held at the offices of Foley Hoag LLP, World Trade Center West, 155 Seaport Boulevard, 16th Floor, Boston, Massachusetts, 02210, on Wednesday, May 25, 2005, beginning at 11:00 a.m. Eastern time.

At this year's annual meeting, stockholders will be asked to elect three directors and vote upon any other matters appropriate to the meeting. We have provided additional information about the annual meeting in the attached notice of annual meeting and proxy statement.

Whether or not you plan to attend the annual meeting, we hope you will vote as soon as possible. You may vote over the Internet, by telephone, or by mailing a completed proxy card. Voting your proxy will ensure your representation at the annual meeting. If you hold your shares indirectly, such as through a brokerage firm or similar institution, you should follow the voting instructions provided by that firm.

I urge you to review the proxy materials carefully and to vote for the proposal described in the proxy statement.

Thank you for your cooperation, continued support, and interest in KVH Industries, Inc. I hope to see you at the annual meeting.

Sincerely,

/s/ Martin A. Kits van Heyningen
Martin A. Kits van Heyningen

President and Chief Executive Officer

Table of Contents

KVH INDUSTRIES, INC.

Notice of Annual Meeting of Stockholders

to be held on May 25, 2005

KVH Industries, Inc., hereby gives notice that it will hold its annual meeting of stockholders at the offices of Foley Hoag LLP, World Trade Center West, 155 Seaport Boulevard, 16th Floor, Boston, Massachusetts 02210 on Wednesday, May 25, 2005, beginning at 11:00 a.m., Eastern time, for the following purposes:

1. To consider and vote upon the election of three class III directors; and
2. To transact such further business as may properly come before the annual meeting or any adjournment of the meeting.

Our board of directors has fixed the close of business on Friday, April 1, 2005, as the record date for the determination of the stockholders entitled to receive notice of, and to vote at, the annual meeting and any adjournment of the meeting. Only stockholders of record on April 1, 2005, are entitled to receive notice of, and to vote at, the annual meeting or any adjournment of the meeting.

By order of the board of directors,

/s/ Robert W.B. Kits van Heyningen
Robert W.B. Kits van Heyningen

Secretary

Middletown, Rhode Island

April 18, 2005

YOUR VOTE IS IMPORTANT

**Please sign and return the enclosed proxy, whether or not you
plan to attend the annual meeting.**

Table of Contents**PROXY STATEMENT****TABLE OF CONTENTS**

	<u>Page</u>
<u>Annual Meeting of Stockholders</u>	1
<u>Purpose of the annual meeting</u>	1
<u>Record date</u>	1
<u>Methods of voting</u>	1
<u>Quorum</u>	2
<u>Vote required; tabulation of votes</u>	2
<u>Solicitation of proxies</u>	2
<u>Revocability of proxy</u>	2
<u>Proposal One: Election of Directors</u>	3
<u>Directors and Executive Officers</u>	3
<u>Security Ownership of Certain Beneficial Owners and Management</u>	7
<u>Principal stockholders</u>	7
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	8
<u>Board of Directors and Committees of the Board</u>	8
<u>Director independence</u>	8
<u>Board meetings</u>	8
<u>Board committees</u>	8
<u>Compensation committee interlocks and insider participation</u>	9
<u>Director candidate and selection processes</u>	9
<u>Communications with our board of directors</u>	10
<u>Code of ethics</u>	10
<u>Report of the Audit Committee</u>	11
<u>Principal Accountant Fees and Services</u>	12
<u>Fees for professional services</u>	12
<u>Pre-approval policies and procedures</u>	12
<u>Report of the Compensation Committee</u>	13
<u>Compensation of Directors and Executive Officers</u>	14
<u>Director compensation</u>	14
<u>Executive compensation</u>	15
<u>Equity compensation plans</u>	17
<u>Performance Graph</u>	18
<u>Stockholder Proposals</u>	19
<u>Available Information</u>	19

Table of Contents

ANNUAL MEETING OF STOCKHOLDERS

Purpose of the annual meeting

At the annual meeting, we will submit the following proposal to the stockholders:

Proposal One: To elect three Class III directors to a three-year term.

Our board of directors does not intend to present to the annual meeting any business other than the proposal described in this proxy statement. Our board of directors was not aware, a reasonable time before mailing this proxy statement to stockholders, of any other business that may be properly presented for action at the annual meeting. If any other business should come before the annual meeting, the persons present will have discretionary authority to vote the shares they own or represented by proxy in accordance with their judgment, to the extent authorized by applicable regulations.

Record date

Our board of directors has fixed the close of business on Friday, April 1, 2005, as the record date for the annual meeting. Only stockholders of record as of the close of business on that date are entitled to receive notice of the annual meeting, and to vote at, the annual meeting. At the close of business on the record date, there were issued and outstanding 14,536,483 shares of our common stock. Each share of common stock outstanding on the record date will be entitled to cast one vote.

Methods of voting

The shares represented by your properly signed proxy card will be voted in accordance with your directions. If you do not specify a choice with respect to a proposal for which our board of directors has made a recommendation, the shares covered by your signed proxy card will be voted as recommended in this proxy statement. We encourage you to vote on all matters to be considered.

Voting by mail:

By signing and returning the proxy card in the enclosed envelope, you are enabling the individuals named on the proxy card (known as proxies) to vote your shares at the meeting in the manner you indicate. We encourage you to sign and return the proxy card even if you plan to attend the meeting. In this way, your shares will be voted even if you are unable to attend the meeting. If you received more than one proxy card, it is an indication that your shares are held in multiple accounts. Please sign and return all proxy cards to ensure that all of your shares are voted.

Voting by telephone:

To vote by telephone, please follow the instructions included on your proxy card. If you vote by telephone, you do not need to complete and mail your proxy card.

Voting on the Internet:

To vote on the Internet, please follow the instructions included on your proxy card. If you vote on the Internet, you do not need to complete and mail your proxy card.

Voting in person at the meeting:

If you plan to attend the meeting and vote in person, we will provide you with a ballot at the meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the

Table of Contents

right to vote in person at the meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of the shares held in street name. If you wish to vote shares held in street name at the meeting, you will need to bring with you to the meeting a legal proxy from your broker or other nominee authorizing you to vote your shares.

Quorum

Our by-laws provide that a quorum consists of a majority of the shares of common stock issued, outstanding, and entitled to vote at the annual meeting. Shares of common stock represented by a properly signed and returned proxy will be treated as present at the annual meeting for purposes of determining the existence of a quorum at the annual meeting. In general, votes withheld from any nominee for election as director, abstentions, if applicable, and broker non-votes, if applicable, are counted as present or represented for purposes of determining the existence of a quorum at the annual meeting. A non-vote occurs when a broker or nominee holding shares for a beneficial owner returns a proxy but does not vote on a proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner.

Vote required; tabulation of votes

A plurality of the votes properly cast at the annual meeting will be necessary to elect each of the three Class III directors to a three-year term. Abstentions and broker non-votes will not be included in calculating the number of votes cast on the proposal.

Our transfer agent, EquiServe, will separately tabulate the votes for each nominee at the annual meeting.

Solicitation of proxies

No compensation will be paid by any person in connection with our solicitation of proxies. We will reimburse brokers, banks and other nominees for the out-of-pocket expenses and other reasonable clerical expenses they incur in obtaining instructions from beneficial owners of our common stock. In addition to our solicitation by mail, our directors, officers and employees may make special solicitations of proxies personally or by telephone, facsimile, courier or e-mail. We expect that the expense of any special solicitation will be nominal. We will pay all expenses incurred in connection with this solicitation.

Revocability of proxy

You may revoke your proxy at any time before it is voted at the meeting. In order to revoke your proxy, you must either:

sign and return another proxy card with a later date;

provide written notice of the revocation of your proxy to our secretary; or

attend the meeting and vote in person.

Table of Contents

PROPOSAL ONE: ELECTION OF DIRECTORS

Proposal One concerns the election of three Class III directors.

Our board of directors currently consists of seven directors and is divided into three classes. We refer to these classes as Class I, Class II and Class III. The term of one class of directors expires each year at the annual meeting of stockholders. Each director also continues to serve as a director until his or her successor is duly elected and qualified. This year, the term of the Class III directors is expiring.

Our nominating committee has nominated Martin A. Kits van Heyningen, Robert W.B. Kits van Heyningen, and Bruce J. Ryan to serve as Class III directors for a three-year term. Our stockholders elected Messrs. Martin Kits van Heyningen and Robert Kits van Heyningen at our annual meeting of stockholders in May 2002, and their current terms will expire at the 2005 annual meeting. Mr. Ryan was appointed to the board in July 2003 to fill a vacancy caused by resignation of a Class III director.

Proxies will not be voted at the 2005 annual meeting for more than three candidates.

Messrs. Martin Kits van Heyningen, Robert Kits van Heyningen, and Ryan have each agreed to serve if elected, and we have no reason to believe that they will be unable to serve. If any of them is unable or declines to serve as a director at the time of the annual meeting, proxies will be voted for another nominee that our board will designate at that time.

Our board of directors recommends that you vote *FOR* the election of Messrs. Martin A. Kits van Heyningen, Robert W.B. Kits van Heyningen, and Bruce J. Ryan.

Directors and Executive Officers

Our executive officers and directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Arent H. Kits van Heyningen	88	Chairman of the Board of Directors
Martin A. Kits van Heyningen	46	President, Chief Executive Officer and Director
Patrick J. Spratt	57	Chief Financial Officer
Ian C. Palmer	39	Executive Vice President, Satellite Sales
Robert J. Balog	41	Vice President, Engineering (Satellite Products)
Daniel R. Conway	51	Vice President, Business Development
James S. Dodez	46	Vice President, Marketing
Dr. Kalyan Ganesan	56	Vice President, Engineering (Defense Products)
Robert W.B. Kits van Heyningen	48	Vice President, Research and Development and Director

Edgar Filing: KVH INDUSTRIES INC \DE\ - Form DEF 14A

Mark S. Ain ⁽¹⁾⁽²⁾⁽³⁾	61	Director
Stanley K. Honey ⁽³⁾	50	Director
Bruce J. Ryan ⁽¹⁾⁽²⁾⁽³⁾	61	Director
Charles R. Trimble ⁽¹⁾⁽²⁾⁽³⁾	63	Director

⁽¹⁾ Member of the audit committee.

⁽²⁾ Member of the compensation committee.

⁽³⁾ Member of the nominating and corporate governance committee.

Our executive officers are appointed by, and serve at the discretion of, our board of directors. Arent H. Kits van Heyningen is the spouse of Josina de Smit, our Treasurer, and they are the parents of Martin A. Kits van Heyningen and Robert W.B. Kits van Heyningen.

Table of Contents

Directors serving a term expiring at the 2005 annual meeting (Class III directors):

Martin A. Kits van Heyningen, one of our founders, has served as our president and a director since 1982 and has served as our chief executive officer since 1990. From 1980 to 1982, Mr. Kits van Heyningen was employed by the New England Consulting Group, a marketing consulting firm, as a marketing consultant. Mr. Kits van Heyningen received a B.A. cum laude from Yale University.

Robert W.B. Kits van Heyningen, one of our founders, has served as one of our directors since 1982 and as our vice president of research and development since April 1998. From 1982 to April 1998, he served as our vice president of engineering. From 1979 to 1982, Mr. Kits van Heyningen was an associate engineer at the Submarine Signal Division of Raytheon Company and from 1977 to 1984, he served as a consultant to various companies and universities. Mr. Kits van Heyningen received a B.S. in physics from McGill University with a minor in computer science.

Bruce J. Ryan has served as one of our directors, the chairman of our audit committee, and a member of our compensation committee since July 2003. He has also been a member of our nominating and corporate governance committee since February 2004. Mr. Ryan is currently the chairman of Infinicon Systems, a provider of solutions based on Infiniband technology. From February 1998 to November 2002, he served as executive vice president and chief financial officer of Global Knowledge Network, a provider of information technology and computer software training programs and certifications. From 1994 to 1997, he served as the executive vice president and chief financial officer of Amdahl Corporation, a provider of information technology solutions. Mr. Ryan previously had a 25-year career at Digital Equipment Corporation, where he served in various executive positions, including senior vice president of the financial services, government and professional services business group. Mr. Ryan also serves on the board of directors of CNT Corporation, Tarantella, Inc., and Axeda Systems. He received a B.S. in business administration from Boston College and an M.B.A. from Suffolk University.

Directors serving a term expiring at the 2006 annual meeting (Class I directors):

Mark S. Ain has served as one of our directors since 1997, the chairman of our compensation committee since 1997, a member of our audit committee since 2000 and a member of our nominating and corporate governance committee since February 2004. He is the chief executive officer and chairman of the board of directors of Kronos Incorporated, which he founded in 1977. Mr. Ain also serves on the boards of directors of the Park Electrochemical Corporation, LTX Corporation and the Walker School. He received a B.S. from the Massachusetts Institute of Technology and an M.B.A. from the University of Rochester.

Stanley K. Honey has served as one of our directors since 1997 and a member of our nominating and corporate governance committee since February 2004. Since January 2004, Mr. Honey has served as the chief scientist of Sportvision Systems, LLC, which he co-founded in November 1997. He served as president and chief technology officer of Sportvision Systems from 2000 to January 2004 and as its executive vice president and chief technology officer from 1998 to 2000. From 1993 to 1997, Mr. Honey served as executive vice president of technology for the New Technology Group of News Corporation. From 1989 to 1993, Mr. Honey served as president and chief executive officer of ETAK, Inc., a wholly owned subsidiary of News Corporation. Mr. Honey founded ETAK in 1983 and served as its executive vice president of engineering until News Corporation acquired it in 1989. Mr. Honey received a B.S. from Yale University and an M.S. from Stanford University.

Table of Contents

Directors serving a term expiring at the 2007 annual meeting (Class II directors):

Arent H. Kits van Heyningen, one of our founders, has served as our chief scientist and chairman of the board of directors since 1982. From 1963 to 1986, Mr. Kits van Heyningen was principal engineer at the Submarine Signal Division of Raytheon Company. Mr. Kits van Heyningen received a B.S. and an M.S. in electrical engineering from Delft Technical University, the Netherlands.

Charles R. Trimble has served as one of our directors since 1999, a member of our audit committee since 2001, a member of our compensation committee since 2000 and a member of our nominating and corporate governance committee since February 2004. From 1981 to 1998, he served as the president and chief executive officer of Trimble Navigation Limited, a GPS company which he founded in 1978. Previously, he served as the manager of integrated circuit research and development at Hewlett-Packard's Santa Clara Division. Mr. Trimble is an elected member of the National Academy of Engineering, and he has been chairman of the United States GPS Industry Council since 1996. He received a B.S. in engineering physics, with honors, and an M.S. in electrical engineering from the California Institute of Technology.

Our executive officers who are not also directors are listed below:

Patrick J. Spratt has served as our chief financial officer since July 2002. From April 2001 to June 2002, Mr. Spratt served as an independent consultant, including service as the chief financial officer of FabCentric, Inc., a provider of productivity software for semiconductor manufacturing, from April 2001 until its acquisition in December 2001. From January 2000 to April 2001, Mr. Spratt served as a director and the chief financial officer of NEGEN Access, Inc., an early-stage broadband telecommunications company. From 1998 to January 2000, he served as the chief financial officer and treasurer of BioReliance Corporation, a pharmaceutical and biotechnology testing, development and manufacturing firm. Mr. Spratt previously had a 25-year career at Digital Equipment Corporation, including terms of service as vice president of investor relations from 1996 to 1998, vice president of business operations for computer systems from 1994 to 1996, and vice president of finance for worldwide engineering from 1993 to 1994. Mr. Spratt holds a B.A. in mathematics from Boston College and an M.B.A. from Boston University and has completed executive education programs at Columbia University and Harvard Business School.

Ian C. Palmer has served as our executive vice president of satellite sales since May 2004, and from September 2000 to May 2004, he served as our vice president of satellite sales. From September 1998 to September 2000, he served as director of satellite sales, from February 1997 to September 1998, he served as our reseller sales manager, from December 1995 to February 1997 he served as our sales manager and from December 1993 to December 1995, he served as our marine sales coordinator. From December 1989 to December 1993, Mr. Palmer served as sales manager for Euro Marine Trading. He received a B.A. in international relations and business from Boston University.

Robert J. Balog has served as our vice president of engineering (satellite products) since he joined the company in February 2005. From June 2003 to January 2005, Mr. Balog served as president of his own engineering contract services company, Automation Services, Inc., a contract product development and services group specializing in a wide range of automation solutions. From June 2001 to May 2003, Mr. Balog served as vice president of engineering at ADE Corporation. From 1989 to April 2001, Mr. Balog held a number of positions, at Speedline Technologies, Inc., a supplier of capital equipment to the electronics assembly industry, including general manager and vice president of research and development. He has served on the board of directors of the Surface Mount Equipment Manufacturers Association, serving as chairman and numerous other positions. Mr. Balog is the recipient of 10 U.S. patents. Mr. Balog holds a B.S. in Computer Science from Purdue University.

Daniel R. Conway has served as our vice president of business development for military and industrial products since January 2003. From March 2000 to December 2002, Mr. Conway was the vice president of sales

Table of Contents

and marketing at BENTHOS Inc., an oceanographic technology company with customers in the marine, oil and gas, government and scientific markets. From 1980 to January 2000, he served in a variety of positions at Anteon (formerly Analysis & Technology), including vice president for new business development and acquisition integration from 1997 to January 2000 and vice president of operations for the Newport, Rhode Island operation from 1991 to 1997. Mr. Conway served for five years as a member of the U.S. Navy nuclear submarine force and was a Commander in the U.S. Naval Reserve (Naval Intelligence) for more than 10 years. He is a graduate of the U.S. Naval Academy with post-graduate studies in nuclear engineering, and he received an M.B.A. from the University of Rhode Island.

James S. Dodez has served as our vice president of marketing since October 1998. From 1995 to October 1998, he served as our vice president of marketing and reseller sales and from 1986 to 1995, he served as our marketing director. From 1985 to 1986, Mr. Dodez was the marketing director at Magratten Wooley, Inc., an advertising agency. Mr. Dodez received a B.S. from Miami University of Ohio.

Dr. Kalyan Ganesan has served as our vice president of engineering (defense products) since February 2005. From May 2002 to February 2005, he served as our vice president of engineering. From February 2001 to February 2002, Dr. Ganesan served as the vice president of engineering for CoWave Networks, an early-stage developer of wireless broadband products. From February 1990 to September 2000, he served as an assistant vice president at Hughes Network Systems, where he oversaw engineering and product research and development within the Satellite and Broadband Carrier Networks Divisions. From 1986 to 1990, he served as U.S. West's technical director for advanced technologies. Dr. Ganesan received a B.S. in electrical engineering from Annamalai University, India and an M.S. in electronics and communications engineering from the Indian Institute of Technology, New Delhi, India. He received his Ph.D. in computer science and engineering from Case Western Reserve University.

Table of Contents

**SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT**

At the close of business on April 1, 2005, there were issued and outstanding 14,536,483 shares of our common stock entitled to cast 14,536,483 votes. On April 1, 2005, the closing price of the common stock as reported on the Nasdaq National Market was \$8.90 per share.

Principal stockholders

The following table provides, to the knowledge of management, information regarding the beneficial ownership of our common stock as of April 1, 2005, or as otherwise noted, by:

each person known by us to be the beneficial owner of more than five percent of our common stock;

each of our directors;

each executive officer named in the summary compensation table; and

all of our current directors and executive officers as a group.

The persons named in this table have sole voting and investment power with respect to the shares listed, except as otherwise indicated. The inclusion of shares listed as beneficially owned does not constitute an admission of beneficial ownership. Shares included in the Right to acquire column consist of shares that may be purchased through the exercise of options that vest within 60 days of April 1, 2005.

	Shares beneficially owned			
	Outstanding	Right to acquire	Total	Percent
5% Stockholders				
Royce & Associates, LLC ⁽¹⁾	1,765,000		1,765,000	12.1%
1414 Avenue of the Americas				
New York, NY 10019				
Downtown Associates, LLC ⁽²⁾	1,336,970		1,336,970	9.2
674 Unionville Road, Suite 105				

Edgar Filing: KVH INDUSTRIES INC \DE\ - Form DEF 14A

Kennett Square, PA 19348				
Systematic Financial Management, L.,P. ⁽³⁾	1,317,135		1,317,135	9.1
300 Frank W. Burr Blvd.				
Glenpointe East, 7 th Floor				
Teaneck, NJ 07666				
Massachusetts Financial Services Company ⁽⁴⁾	1,070,470		1,070,470	7.4
500 Bolyston Street				
Boston, MA 02116				
Directors				
Arent H. Kits van Heyningen ⁽⁵⁾	579,685	29,425	609,110	4.2
Martin A. Kits van Heyningen ⁽⁶⁾	273,962	114,975	388,937	2.7
Robert W.B. Kits van Heyningen	115,946	26,875	142,821	*
Mark S. Ain	26,800	33,750	60,550	*
Stanley K. Honey	18,375	25,000	43,375	*
Charles R. Trimble	8,000	33,750	41,750	*
Bruce J. Ryan		23,750	23,750	*
Other Named Executive Officers				
Patrick J. Spratt	10,562	47,250	57,812	*
Ian C. Palmer	12,336	37,500	49,836	*
James S. Dodez ⁽⁷⁾	49,420	25,624	75,044	*
All current directors and executive officers as a group (13 persons)	1,102,724	456,374	1,559,098	10.4%

* Less than one percent.

Table of Contents

- (1) Information is based on a Schedule 13G/A filed by Royce & Associates, LLC with the Securities and Exchange Commission on January 31, 2005.
- (2) Information is based on a Schedule 13G/A filed by Ronald J. Juvonen, in his capacity as the managing member of Downtown Associates, L.L.C., with the Securities and Exchange Commission on February 14, 2005. The Schedule 13G/A states that Downtown Associates I, LP, Downtown Associates II, LP, Downtown Associates III, LP, Downtown Associates IV, LP and Downtown Associates V, LP (the Downtown Funds) hold 1,336,970 shares, and that Mr. Juvonen, as the managing member of Downtown Associates, L.L.C., the general partner of the Downtown Funds, has sole voting power and sole dispositive power of those shares.
- (3) Information is based on a Schedule 13G filed by Systematic Financial Management, L.P. with the Securities and Exchange Commission on February 14, 2005. The Schedule 13G states that Systematic Financial Management, L.P., an investment advisor, has sole voting power of 1,221,810 shares and sole dispositive power of 1,317,135 shares.
- (4) Information is based on a Schedule 13G filed by Massachusetts Financial Services Company with the Securities and Exchange Commission on February 8, 2005.
- (5) Includes 242,752 shares of common stock and 2,550 shares subject to options held by Arent H. Kits van Heyningen s spouse, who is our Treasurer. Arent H. Kits van Heyningen is the father of Martin A. Kits van Heyningen and Robert W.B. Kits van Heyningen and disclaims beneficial ownership of his sons shares.
- (6) Includes 5,620 shares of common stock and 6,225 shares subject to options held by Mr. Kits van Heyningen s spouse, who is one of our employees.
- (7) Includes 2,529 shares of common stock held by Mr. Dodez s spouse and children.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who beneficially own more than ten percent of our common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. SEC regulations require executive officers, directors and greater-than-ten-percent stockholders to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3, 4, 5, and amendments thereto furnished to us with respect to 2004, we believe that all Section 16(a) filing requirements applicable to our executive officers, directors and greater-than-ten-percent stockholders were fulfilled in a timely manner.

BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Director Independence

A majority of our directors are independent directors under the rules of the Nasdaq Stock Market. Our board of directors has determined that our independent directors are Messrs. Ain, Honey, Ryan and Trimble.

Board Meetings

During 2004, our board of directors met seven times. Each incumbent director attended at least 75% of the total number of meetings held by the board and the committees of the board on which he served during 2004. To the extent reasonably practicable, directors are expected to attend board meetings, meetings of committees on which they serve, and, starting in 2005, our annual meeting of stockholders. Last year, two of the

seven individuals then serving as directors attended the annual meeting.

Board Committees

Our board of directors has three standing committees: the audit committee, the nominating and corporate governance committee and the compensation committee. Each member of the audit committee, the nominating

Table of Contents

and corporate governance committee and the compensation committee meets the independence requirements of the Nasdaq Stock Market for membership on the committees on which he serves. The audit committee, the nominating and corporate governance committee and the compensation committee each have the authority to retain independent advisors and consultants. We pay the fees and expenses of these advisors.

Audit Committee

Our audit committee is currently composed of Messrs. Ain, Ryan and Trimble. Our audit committee provides the opportunity for direct contact between our independent registered public accounting firm and members of the board of directors; the auditors report directly to the committee. The committee assists the board in overseeing the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent registered public accounting firm's qualifications and independence, and the performance of our independent registered public accounting firm. The committee is directly responsible for appointing, compensating, evaluating and, when necessary, terminating our independent registered public accounting firm. Our audit committee has established procedures for the treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential and anonymous submission by our employees of concerns regarding questionable accounting, internal accounting controls or auditing matters. Our board has determined that Mr. Ryan is an audit committee financial expert under the rules of the Securities and Exchange Commission. Our audit committee met eight times during 2004. Our board of directors adopted a new audit committee charter in February 2004 and reviewed and re-affirmed its contents in February 2005.

Nominating and Corporate Governance Committee

Our board of directors established a nominating and corporate governance committee in February 2004. The current members of our nominating and corporate governance committee are Messrs. Ain, Honey, Ryan and Trimble. Our nominating and corporate governance committee's responsibilities include providing recommendations to our board of directors regarding nominees for director and membership on the committees of our board. An additional function of the committee is to develop corporate governance practices to recommend to our board and to assist our board in complying with those practices. Our board of directors has adopted a charter for this committee, which we have made available through the Investor Relations page of our web site at www.kvh.com.

Compensation Committee

The compensation committee's responsibilities include providing recommendations to our board regarding the compensation levels of directors, approving, or recommending for approval by our board, the compensation levels of executive officers, providing recommendations to our board regarding compensation programs, administering our incentive-compensation plans and equity-based plans, authorizing grants under our stock option plans, and authorizing other equity compensation arrangements. Our compensation committee met four times during 2004. Our compensation committee is currently composed of Messrs. Ain, Ryan and Trimble.

Compensation committee interlocks and insider participation

No member of the compensation committee had any relationship requiring disclosure under the rules of the Securities and Exchange Commission regarding transactions and relationships with related parties.

Director candidates and selection processes

The process followed by our nominating and corporate governance committee to identify and evaluate director candidates includes requests to our board members and others for recommendations, meetings from time to time to evaluate biographical information and background materials relating to potential candidates, and interviews of selected candidates by members of the committee and other members of our board. The committee

Table of Contents

may also solicit the opinions of third parties with whom the potential candidate has had a business relationship. Once the committee is satisfied that it has collected sufficient information on which to base a judgment, the committee votes on the candidate or candidates under consideration.

In evaluating the qualifications of any candidate for director, the committee considers, among other factors, the candidate's depth of business experience, reputation for personal integrity, understanding of financial matters, familiarity with the periodic financial reporting process, reputation, degree of independence from management, possible conflicts of interest and willingness and ability to serve. The committee also considers the degree to which the candidate's skills, experience and background complement or duplicate those of our existing directors and the long-term interests of our stockholders. In the case of incumbent directors whose terms are set to expire, the committee also gives consideration to each director's prior contributions to the board. The minimum qualifications that each director must possess consist of general familiarity with fundamental financial statements, ten years of relevant business experience, no identified conflicts of interest, no convictions in a criminal proceeding during the five years prior to the date of selection and the willingness to execute and comply with our code of ethics. In selecting candidates to recommend for nomination as a director, the committee abides by our company-wide non-discrimination policy.

The committee will consider director candidates recommended by stockholders and use the same process to evaluate candidates regardless of whether the candidates were recommended by stockholders, directors, management or others. The committee has not adopted any particular method that stockholders must follow to make a recommendation. We suggest that stockholders make recommendations by writing to the chairman of our nominating and corporate governance committee, in care of our offices, with sufficient information about the candidate, his or her work experience, his or her qualifications for director, and his or her references as will enable the committee to evaluate the candidacy properly. We also suggest that stockholders make their recommendations well in advance of the anticipated mailing date of our next proxy statement so as to provide our nominating and corporate governance committee an adequate opportunity to complete a thorough evaluation of the candidacy, including personal interviews. We remind stockholders of the separate requirements set forth in our by-laws for nominating individuals to serve as directors, which we discuss elsewhere in this proxy statement.

Communications with our Board of Directors

Our board, including all of the independent directors, has established a process for facilitating stockholder communications with our board. Stockholders wishing to communicate with our board should send written correspondence to the attention of our outside legal counsel, Adam Sonnenschein, Foley Hoag LLP, World Trade Center West, 155 Seaport Boulevard, Boston, Massachusetts 02210, and should include with the correspondence evidence that the sender of the communication is one of our stockholders. Satisfactory evidence would include, for example, contemporaneous correspondence from a brokerage firm indicating the identity of the stockholder and the number of shares held. Our legal counsel will forward all mail to each member of our board of directors.

Our board believes that this process will be sufficient to handle the relatively low volume of communications we have historically received from our stockholders. If the volume of communications increases, our board may elect to adopt more elaborate screening procedures.

Code of Ethics

We have adopted a code of ethics that applies to all of our directors, executive officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The code of ethics includes provisions covering compliance with laws and regulations, insider trading practices, conflicts of interest, confidentiality, protection and proper use of our assets, accounting and record keeping, fair competition and fair dealing, business gifts and entertainment, payments to government personnel and the reporting of illegal or unethical behavior. You can obtain a copy of our code of ethics through the Investor Relations page of our web site at www.kvh.com.

Table of Contents

REPORT OF THE AUDIT COMMITTEE

The board of directors appointed an audit committee to monitor the integrity of our company's consolidated financial statements, its system of internal controls and the independence and performance of our independent