KVH INDUSTRIES INC \DE\
Form DEF 14A
April 25, 2013
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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

(Amendment No.)

Filed by the Registrant þ

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))**

þ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

KVH INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ 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.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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KVH Industries, Inc.

Notice of Annual Meeting of Stockholders

to be held on May 29, 2013

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 26, 2013.

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KVH Industries, Inc.

50 Enterprise Center

Middletown, RI 02842

April 25, 2013

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 KVH Industries, Inc., 50 Enterprise Center, Middletown, Rhode Island, on Wednesday, May 29, 2013, beginning at 11:00 a.m. local time.

At this year s annual meeting, stockholders will be asked to take the following actions:

elect two Class II directors to a three-year term;

approve an amendment to the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan to increase the number of shares of our common stock issuable under the plan;

approve an amendment to the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan to increase the number of shares of our common stock issuable under the plan;

ratify the appointment of KPMG LLP as our independent registered public accounting firm; and

vote upon any other matters appropriate to the meeting.

We have provided additional information about these items and 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 proposals 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,

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

Chairman of the Board of Directors

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KVH INDUSTRIES, INC.

Notice of Annual Meeting of Stockholders

to be held on May 29, 2013

KVH Industries, Inc., hereby gives notice that it will hold its annual meeting of stockholders at the offices of KVH Industries, Inc., 50 Enterprise Center, Middletown, Rhode Island, on Wednesday, May 29, 2013, beginning at 11:00 a.m., local time, for the following purposes:

1. To consider and vote upon the election of two Class II directors to a three-year term;

2. To approve an amendment to the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan to increase the number of shares issuable under the plan by 2,250,000 to 6,500,000;

3. To approve an amendment to the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan to increase the number of shares of our common stock issuable under the plan by 50,000 to 650,000;

4. To ratify the appointment of KPMG LLP as our independent registered public accounting firm; and

5. 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 Monday, April 1, 2013, 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, 2013 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,

Felise Feingold

Secretary

Middletown, Rhode Island

April 25, 2013

YOUR VOTE IS IMPORTANT

Please sign and return the enclosed proxy, whether or not you

plan to attend the annual meeting.

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Important Notice Regarding the Availability of Proxy Materials

for the Annual Meeting of Stockholders to be Held on May 29, 2013

This proxy statement and our 2012 annual report to stockholders are available on the Internet at www.kvh.com/annual. You can read, print, download and search these materials at that website. The website does not use cookies or other tracking devices to identify visitors.

You can obtain directions to be able to attend the meeting and vote in person at www.kvh.com/annual.

None of the information on our website or elsewhere on the Internet forms a part of this proxy statement or is incorporated by reference into this proxy statement.

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PROXY STATEMENT

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ANNUAL MEETING OF STOCKHOLDERS

Purpose of the annual meeting

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

Proposal One:	To elect two Class II directors to a three-year term.
Proposal Two:	To approve an amendment to the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan to increase the number of shares of our common stock issuable under the plan by 2,250,000 to 6,500,000.
Proposal Three:	To approve an amendment to the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan to increase the number of shares of our common stock issuable under the plan by 50,000 to 650,000.
Proposal Four:	To ratify the appointment of KPMG LLP as our independent registered public accounting firm.

Our Board of Directors does not intend to present to the annual meeting any business other than the proposals 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 represent 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 Monday, April 1, 2013, 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 15,496,474 shares of our common stock outstanding. 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 individual named on the proxy card (known as a proxy) 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.

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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 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.

You can obtain directions to be able to attend the meeting and vote in person at www.kvh.com/annual. None of the information on our website or elsewhere on the Internet forms a part of this proxy statement or is incorporated by reference into this proxy statement.

Quorum requirement

Our by-laws provide that a quorum consists of a majority of the shares of common stock 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.

Votes required; tabulation of votes

A plurality of the votes properly cast at the annual meeting will be necessary to elect each Class II director to a three-year term (proposal one). A majority of the votes properly cast at the annual meeting will be necessary to approve the proposed amendment to our Amended and Restated 2006 Stock Incentive Plan (proposal two), the proposed amendment to our Amended and Restated 1996 Employee Stock Purchase Plan (proposal three), the proposal to ratify the selection of KPMG LLP as our independent registered public accounting firm (proposal four) and any other matter to be acted upon at the annual meeting.

Abstentions and broker non-votes will not be included in calculating the number of votes cast on any proposal. As a result, abstentions and broker non-votes will not have any effect on the outcome of the vote on any proposal.

Our transfer agent, Computershare Trust Company, N.A., will separately tabulate the votes on each matter presented to the stockholders at the annual meeting.

Solicitation of proxies

We are soliciting proxies on behalf of our Board of Directors. 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.

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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;
- if you voted by Internet or telephone, by following the instructions for revocation provided by Internet or telephone; or
- attend the meeting and vote in person.

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PROPOSAL ONE: ELECTION OF DIRECTORS

Proposal One concerns the election of two Class II directors for three-year terms.

Our Board of Directors currently consists of six 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 II directors is expiring.

Our Nominating and Corporate Governance Committee has nominated Martin A. Kits van Heyningen and Charles R. Trimble to serve as Class II directors for a three-year term. Our stockholders last elected Messrs. Martin A. Kits van Heyningen and Charles R. Trimble at our annual meeting of stockholders in May 2010, and their current terms will expire at the 2013 annual meeting.

Proxies will not be voted at the 2013 annual meeting for more than two candidates.

Messrs. Martin A. Kits van Heyningen and Charles R. Trimble have agreed to serve if elected, and we have no reason to believe that they will be unable to serve. If either 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 of Directors will designate at that time.

A plurality of the votes properly cast at the annual meeting will be necessary to elect each Class II director to a three-year term.

Our Board of Directors recommends that you vote FOR the election of Messrs. Martin A. Kits van Heyningen and Charles R. Trimble as our Class II directors.

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PROPOSAL TWO: AMENDMENT OF OUR AMENDED AND RESTATED 2006 STOCK INCENTIVE PLAN

Proposal Two concerns the approval of an amendment to the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan to increase the number of shares issuable under the plan by 2,250,000 to 6,500,000.

We are asking our stockholders to approve an amendment to the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan, or the 2006 Plan, which was approved by our Board of Directors on April 17, 2013, subject to stockholder approval. The amendment would increase the number of shares reserved for issuance under the 2006 Plan by 2,250,000 to a total of 6,500,000. Our stockholders last approved an increase in the number of shares issuable under the 2006 Plan in 2010.

As of April 19, 2013, 3,563,787 shares of common stock have been issued, were reserved for issuance in connection with outstanding awards, or were cancelled under the 2006 Plan, and only 686,213 shares of common stock remained available for future grants under the 2006 Plan.

If the stockholders do not approve the proposed amendment to the 2006 Plan, our ability to grant any further options or make any further stock-based awards will be significantly curtailed, and our flexibility in granting other types of awards will be significantly limited. This may adversely impact our ability to attract, retain and motivate current and prospective employees.

A majority of the votes properly cast on the proposal at the annual meeting will be necessary to approve the amendment to the 2006 Plan.

Our Board of Directors recommends that you vote FOR the amendment to the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan.

Description of the KVH Industries, Inc. Amended and Restated 2006 Stock Incentive Plan

The following is a brief summary of the material features of the 2006 Plan. This summary does not purport to be complete and is qualified in its entirety by reference to the 2006 Plan, as so amended, a copy of which is attached to this proxy statement as Appendix A.

Types of awards

The 2006 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, non-statutory stock options, restricted stock awards and other stock-based awards, including the grant of shares based upon certain conditions. We refer to these collectively in this proxy statement as awards.

Stock options. Optionees receive the right to purchase a specified number of shares of common stock at a specified option price and subject to such other terms and conditions as are specified in connection with the option grant. Options must be granted at an exercise price that is at least equal to 100% of the fair market value of the common stock on the date of grant (110% of the fair market value in the case of incentive stock options granted to optionees holding more than, or deemed to hold more than, 10% of the voting power of the company). No option may have a term longer than seven years (five years in the case of incentive stock options granted to optionees holding more than, or deemed to hold more than, 10% of the voting power of the company). The 2006 Plan permits the following forms of payment of the exercise price of options:

- by cash or check payable to the order of KVH Industries, Inc.;
- delivery to us of shares of common stock held by the optionee having a fair market value equal to the aggregate exercise price of the options being exercised;

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- a cashless exercise through a broker supported by an irrevocable and unconditional undertaking by such broker to deliver sufficient funds to pay the applicable exercise price;

- by reducing the number of option shares otherwise issuable to the optionee upon exercise of the option by a number of shares having a fair market value equal to the aggregate exercise price of the options being exercised; or

- any combination of these forms of payment.

Restricted stock and restricted stock unit awards. Restricted stock awards entitle recipients to acquire shares of common stock, subject to our right to repurchase all or part of the shares from the recipient in the event that the conditions specified in the applicable award are not satisfied before the end of the applicable restriction period established for the award. Instead of granting awards for restricted stock, the plan administrator may grant awards entitling the recipient to receive shares of common stock to be delivered at the time the awards vest. The 2006 Plan refers to these awards as restricted stock units.

Other stock-based awards. Under the 2006 Plan, the plan administrator has the right to grant other awards based upon our common stock having such terms and conditions as the plan administrator may determine, including the grant of shares based upon certain conditions. These stock-based awards may be valued in whole or in part on the basis of shares of our common stock or other property, may entitle participants to receive shares of our common stock in the future and may be paid in shares of our common stock or cash.

Eligibility to receive awards

All employees, officers, directors, consultants and advisors of ours and of our present or future parent or subsidiary corporations are eligible to receive awards under the 2006 Plan. We refer to holders of 2006 Plan awards in this proxy statement as participants. Under present law, however, incentive stock options may only be granted to our employees and employees of our parent and subsidiary corporations. As of April 19, 2013, 4 directors and 362 employees were eligible to participate in the 2006 Plan.

Shares available for issuance

At present, a maximum of 4,250,000 shares of common stock may be issued under the 2006 Plan. If our stockholders approve the proposed amendment to the 2006 Plan, a maximum of 6,500,000 shares of common stock will be issuable under the 2006 Plan. The maximum number of shares with respect to awards that may be granted to any person under the 2006 Plan may not exceed 120,000 shares per calendar year. As of April 19, 2013, the closing price of our common stock on the Nasdaq Global Select Market was $12.69 per share.

Each share issued under awards other than options will reduce the number of shares reserved for issuance by two shares (but will reduce the maximum number of shares that may be granted annually to a participant only by one share), and shares issued under options will reduce the shares reserved for issuance on a 1-to-1 basis.

If any award expires or is terminated or surrendered, the unused shares of common stock covered by the award will again be available for grant under the 2006 Plan. Unused shares covered by expired, terminated or surrendered awards other than options increase the shares available for grant under the plan at the ratio of 2-to-1. Unused shares of common stock subject to options will, upon expiration, termination or surrender of the options, increase the shares available for grant under the plan at the ratio of 1-to-1.

The plan also states that, consistent with our historical practice, shares of common stock tendered to us by a participant to exercise an award or otherwise acquire shares, as well as shares withheld from the exercise of an award or other acquisition of shares to cover any tax liability, are not permitted to be added to the number of shares of common stock available for the grant of awards under the plan.

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Automatic director awards

Under a policy adopted by the Compensation Committee in April 2009, each non-employee director will automatically receive under the 2006 Plan, upon his or her initial election to the Board (or, if already a director, upon first being elected as a non-employee director), a restricted stock award with respect to 10,000 shares of common stock and will receive, on the date of the first Board meeting following each annual meeting thereafter, a restricted stock award with respect to an additional 5,000 shares, if then serving as a director. Each award will vest in four equal quarterly installments after the date of the grant.

In addition, under this policy, each non-employee director appointed to serve on the Audit Committee of the Board will automatically receive under the 2006 Plan, upon his or her initial appointment to the Audit Committee, a restricted stock award with respect to 5,000 shares of common stock and will receive, on each anniversary of such appointment, a restricted stock award with respect to an additional 5,000 shares of common stock, as long as such director continues to serve on the Audit Committee. Each award will vest in four equal quarterly installments after the date of grant.

Administration

The 2006 Plan is administered by our Compensation Committee through a delegation of authority by our Board of Directors. The Compensation Committee has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2006 Plan and to interpret the provisions of the 2006 Plan. It is our intention that the composition of the Compensation Committee will comply with Section 162(m) of the Code and Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

Subject to any applicable limitations contained in the 2006 Plan, the Compensation Committee selects the recipients of awards and determines:

- the number of shares of common stock covered by an award and the dates upon which such award vests and/or becomes exercisable or free of conditions and/or restrictions;
- the exercise price or purchase price of awards (which, for options, may not be less than 100% of fair market value of the common stock on the grant date or 110% of such market value in the case of incentive stock options granted to optionees holding more than, or deemed to hold more than, 10% of the voting power of the company); and
- the duration of options (which may not exceed seven years or five years in the case of incentive stock options granted to optionees holding more than, or deemed to hold more than, 10% of the voting power of the company).

Transferability

Incentive stock options may not be transferred other than by will or the laws of inheritance. Non-statutory stock options may only be transferred if the committee so provides. Restricted stock and restricted stock unit awards generally may not be sold, assigned, transferred, pledged or otherwise encumbered by participants, except by will or the laws of inheritance.

Changes in status

If a participant s employment or service terminates by reason of death, the participant s legal representatives may exercise his or her incentive stock option for the number of shares that was vested on the date of death until the earlier of one year following the date of death or the expiration date of the incentive stock option. If a participant s employment or service terminates by reason of disability, the participant may exercise his or her incentive stock option for the number of shares that was vested on the date of termination until the earlier of one year following the date of termination or the expiration date of the incentive stock option.

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If a participant s employment or service terminates for cause (as defined in the 2006 Plan), any incentive stock option then held by the participant will immediately terminate.

Any non-statutory stock option granted under the 2006 Plan will contain such terms and conditions with respect to its termination as the Compensation Committee, in its discretion, may from time to time determine.

If a participant s employment or service is interrupted due to an approved leave of absence (whether paid or unpaid) or if a participant is transferred between us and an affiliate, those events will not be deemed a termination of employment.

If a participant s employment or service terminates for a reason other than cause, death, disability, or voluntary termination, unless otherwise determined by our Compensation Committee, any incentive stock option held by such participant may thereafter be exercised, to the same extent exercisable prior to the date of termination, until the earlier of the expiration of the option or 30 days after the date of termination of employment or service.

Adjustments for changes in common stock and other events

Upon the occurrence of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in our capitalization, each award outstanding under the 2006 Plan, as well as the number and kind of shares reserved for issuance under the 2006 Plan, will be appropriately adjusted by the Compensation Committee to reflect any such event.

In the event of our merger, consolidation, liquidation or dissolution, the Compensation Committee may, as to any outstanding awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance and in the number and purchase price of shares subject to such awards as it may determine, or accelerate, amend or terminate such awards upon such terms and conditions as it shall provide.

Change of control events

Upon the occurrence of a change of control (as defined in the 2006 Plan):

- each holder of an outstanding stock option will be entitled, upon exercise of the option, to receive, in lieu of shares of our common stock, shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of our common stock receive in connection with the change of control;

- the Compensation Committee may accelerate, fully or in part, the time for exercise of, and waive any or all conditions and restrictions on, each unexercised and unexpired stock option, restricted stock, restricted stock unit or other awards made under the 2006 Plan, effective upon a date prior or subsequent to the effective date of such change of control, as specified by the Compensation Committee; or

- each outstanding stock option may be cancelled by the Compensation Committee as of the effective date of any such change of control provided that (a) prior written notice of such cancellation shall be given to each holder of such an option and (b) each holder of such an option shall have the right to exercise such option to the extent that the same is then exercisable or, in full, if the Compensation Committee shall have accelerated the time for exercise of all such unexercised and unexpired options, during the thirty (30) day period preceding the effective date of such change of control.

In addition to the provisions set forth above, the Compensation Committee has the discretion when granting awards under the 2006 Plan to provide for different or additional provisions with respect to the effect of a change of control on any award.

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Under the 2006 Plan, a change of control relating to (i) a merger or consolidation of KVH with any other corporation or other entity or (ii) the sale or disposition of all or substantially all of our assets occurs upon consummation of such a transaction.

Amendment or termination

The Board of Directors originally adopted the 2006 Plan on February 22, 2006, and our stockholders first approved it on May 24, 2006. No award may be granted under the 2006 Plan after February 22, 2016, the date that is ten years from the date the 2006 Plan was adopted by our Board of Directors, but any awards granted may extend beyond that date. The Board may at any time amend or discontinue the 2006 Plan, and the Compensation Committee may at any time amend or cancel any outstanding award for the purpose of satisfying changes in law or for any other lawful purposes, except that:

- no amendment may increase the limitations on the number of shares available for grant under the 2006 Plan without stockholder approval; and
- no amendment may amend the limitation on option repricing in the 2006 Plan without stockholder approval.

New plan benefits

Except for the automatic grants of restricted stock awards to non-employee directors described above, the grant of awards under the plan is within the discretion of the plan administrator. Accordingly, we are unable to determine the number of awards that will be received by or allocated to any participant under the 2006 Plan, except as described below.

The following table provides information concerning the benefits that we can determine will be received by:

- each executive officer named in the summary compensation table;
- all current executive officers, as a group;
- all current directors who are not executive officers, as a group; and
- all employees who are not executive officers, as a group.

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The information in the following table is limited to the annual automatic grants of restricted stock to non-employee directors.

New Plan Benefits

KVH Industries, Inc. 2006 Stock Incentive Plan

Name and Position	**Number of Shares**
Martin A. Kits van Heyningen, President, Chief Executive Officer and Chairman of the Board of Directors	
Peter A. Rendall, Chief Financial Officer	
Brent C. Bruun, Executive Vice President, Mobile Broadband	
Robert J. Balog, Senior Vice President, Engineering	
Daniel R. Conway, Executive Vice President, Guidance and Stabilization	
Robert W.B. Kits van Heyningen, Vice President, Research and Development and Director	
Patrick J. Spratt, Former Chief Financial Officer	
All current executive officers, as a group	
All current directors who are not executive officers, as a group	40,000 (1)
All employees who are not executive officers, as a group	

(1) At the end of 2012, we had four non-employee directors, all of whom served on the Audit Committee of the Board. The amount shown in the table represents the aggregate number of shares of common stock subject to restricted stock awards that will be granted on the date of the first Board meeting following each annual meeting of stockholders to four non-employee directors, assuming we will have four non-employee directors who will be re-elected as directors at the annual meeting or whose term will continue after the annual meeting, plus the aggregate number shares of common stock subject to restricted stock awards that will be granted annually to continuing members of the Audit Committee, assuming we will have four directors who will continue to serve as members of the Audit Committee during the year. The amount shown does not include 10,000 shares of common stock subject to restricted stock awards that will be granted to each non-employee director who joins our Board of Directors in the future or 5,000 shares of common stock subject to restricted stock awards that will be granted to each director who joins the Audit Committee in the future.

Federal income tax consequences of the 2006 Plan

The following tax information is intended only as a brief overview of the current material United States federal income tax laws applicable to the 2006 Plan. The summary does not purport to be a complete description of all federal tax issues, nor does it address any state, local or foreign tax matters. Each option or award recipient should consult his or her own tax advisors concerning the application of various tax laws that might affect his or her particular situation.

Nonqualified stock options

The holder of a nonqualified stock option recognizes no income for federal income tax purposes on the grant of the option. On the exercise of a nonqualified stock option, the difference between the fair market value of the common stock on the exercise date and the option exercise price is treated as compensation to the holder of the option, taxable as ordinary income in the year of exercise. That fair market value becomes the basis for the underlying shares, which will be used in computing any capital gain or loss upon disposition of the shares. The capital gain or loss will be long-term gain or loss if the holder has held the stock for more than one year after the date of exercise of the option.

Incentive stock options

Except as described below with respect to the alternative minimum tax, the holder of an incentive stock option recognizes no income for federal income tax purposes on either the grant or exercise of the option. If the holder does not dispose of the shares acquired upon exercise of the incentive stock option within two years from the date of the grant of the incentive stock option or within one year after exercise of the incentive stock option, any gain realized by the holder on the subsequent sale of the shares will be treated for federal income tax purposes as long-term capital gain. If the holder sells the shares before the expiration of such two-year and one-year periods, which is considered a disqualifying disposition, the difference between the lesser of the value of the shares at the date of exercise or at the date of sale and the exercise price of the incentive stock option will be treated as compensation to the holder taxable as ordinary income, and the excess gain, if any, will be treated as capital gain, which will be long-term capital gain if the shares were held for more than one year after exercise of the option.

The excess of the fair market value of the common stock over the exercise price at the time of exercise of an incentive stock option will constitute an item of tax preference for purposes of the alternative minimum tax. Taxpayers who incur the alternative minimum tax are allowed a credit which may be carried forward indefinitely to be used as a credit against the taxpayer s regular tax liability in a later year; however, the alternative minimum tax credit cannot reduce the regular tax below the alternative minimum tax for that carryover year.

Restricted stock awards

The recipient of a restricted stock award usually recognizes income only as the shares of restricted stock issued in connection with the award vest. Upon vesting, the recipient will recognize ordinary income equal to the excess, if any, of the fair market value of the vested shares at the time of vesting over any amount paid by the recipient for the vested shares. Upon the subsequent resale of such vested shares, the recipient will recognize capital gain or loss, as the case may be, in an amount equal to the difference between the amount the recipient receives in exchange for the vested shares and the fair market value of the vested shares at the time of vesting. The gain or loss will be long-term capital gain or loss if more than one year has passed since the shares vested.

However, the recipient of a restricted stock award may elect to recognize ordinary income upon the receipt, rather than the vesting, of shares of restricted stock in connection with the award in accordance with Section 83(b) of the Code. In this case, the recipient recognizes ordinary income in an amount equal to the excess, if any, of the fair market value of the shares at the time the recipient received the shares over the amount the recipient paid for the shares. Upon the subsequent resale of such vested shares, the recipient will recognize capital gain or loss, as the case may be, in an amount equal to the difference between the amount the recipient receives in exchange for the vested shares and the fair market value of the vested shares at the time the recipient received the shares. The gain or loss will be long-term capital gain or loss if more than one year has passed since the recipient received the shares.

Restricted stock unit awards

The recipient of a restricted stock unit award recognizes no income until the recipient receives shares of common stock issued in connection with the award. Upon such receipt, the recipient recognizes ordinary income in an amount equal to the excess, if any, of the fair market value of the shares at the time the recipient received the shares over any amount the recipient paid for the shares. Upon the subsequent disposition of shares received pursuant to a restricted stock unit award, the recipient will recognize capital gain or loss, as the case may be, in

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the amount of the difference between the price received in exchange for the shares and the fair market value of the shares at the time the recipient received them. The gain or loss will be long-term capital gain or loss if more than one year has passed since the recipient received the shares.

Although restricted stock unit awards vest much like restricted stock awards, the Section 83(b) election described above does not apply to restricted stock unit awards because they are unfunded and unsecured promises to issue stock in the future, and thus are not property as contemplated by that section of the Code.

Other stock-based awards

The tax consequences associated with any other stock-based award granted under the 2006 Plan will vary depending on the specific terms of the award.

Deductibility of awards

Subject to certain limitations, we may generally deduct on our corporate income tax returns an amount equal to the amount recognized as ordinary income by a recipient of an award under the 2006 Plan in the year in which the recipient recognizes ordinary income upon the exercise of a nonqualified stock option, the disqualifying disposition of an incentive stock option, the receipt or vesting of shares of stock in connection with a restricted stock award, and the receipt of stock in connection with a restricted stock unit award.

Section 162(m) of the Code generally prevents us from deducting more than $1.0 million in compensation each year for each of our CEO and our three next most highly paid executive officers (other than our Chief Financial Officer). Performance-based compensation that meets criteria established by the Internal Revenue Service is not subject to this limitation. Some of the awards that we grant under the 2006 Plan may not qualify as performance-based compensation. Accordingly, we may be unable to deduct some or all of the amounts that may be recognized as ordinary income by our executive officers.

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PROPOSAL THREE: AMENDMENT OF OUR AMENDED AND RESTATED 1996 EMPLOYEE STOCK PURCHASE PLAN

Proposal Three concerns the approval of an amendment to the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan to increase the number of shares issuable under the plan by 50,000 to 650,000.

We are asking our stockholders to approve an amendment to the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan, or the 1996 Plan, which was approved by our Board of Directors on April 17, 2013, subject to stockholder approval. The amendment would increase the number of shares reserved for issuance under the 1996 Plan by 50,000 to a total of 650,000. Our stockholders last approved an increase in the number of shares issuable under the 1996 Plan in 2010.

As of April 19, 2013, employees had purchased a total of 563,900 shares under the 1996 Plan, and there were 36,100 shares available for issuance to employees under the 1996 Plan. We believe that employees that are also stockholders are more committed and loyal to us. Approval of the amendment would allow us to continue to offer our employees the incentive to participate in our growth as stockholders.

A majority of the votes properly cast on the proposal at the annual meeting will be necessary to approve the amendment to the 1996 Plan.

Our Board of Directors recommends that you vote FOR the amendment to the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan.

Description of the KVH Industries, Inc. Amended and Restated 1996 Employee Stock Purchase Plan

The following is a summary of the material features of the 1996 Plan. The following summary does not purport to be complete and is qualified in its entirety by reference to the terms of the 1996 Plan, a copy of which is attached to this proxy statement as Appendix B.

Participation in the 1996 Plan

The 1996 Plan enables eligible employees to purchase shares during offering periods that are determined by the Compensation Committee in its discretion. To become a participant in the plan, an eligible employee must file an election form with our treasurer not less than 20 days before the commencement of the first offering in which the employee wishes to participate. On the election form, the participant must designate the percentage of eligible compensation (up to a maximum of 6%) he or she would like to have credited to his or her account under the plan. At the end of each offering period, amounts credited to this account will be used to purchase whole shares of our common stock. The purchase price per share will be 85% of the fair market value of our common stock on the last day of the offering period.

During an offering period, payroll deductions may not be changed. A participant may discontinue his or her participation in the 1996 Plan by providing a termination form at any time before the end of an offering period. All amounts then credited to the participant s account will be paid as soon as practicable following receipt of the participant s termination form, and no further payroll deductions will be made with respect to the participant. Upon termination of employment for reasons other than the death of the participant, all amounts credited to the participant s account will be delivered to the participant or his or her successor-in-interest. If a participant s employment terminates by reason of the participant s death, the participant s successor-in-interest may elect either to withdraw all of the payroll deductions credited to the participant s account under the plan or to exercise the participant s option on the first date on which an offering period terminates after the participant s death. No interest will be paid with respect to payroll deductions made or amounts credited to any account under the plan.

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Eligibility

Each employee of ours or of any of our subsidiary corporations who has been continuously employed for at least one year, and who is customarily employed at least 20 hours per week and more than five months per calendar year, is eligible to participate in offerings under the 1996 Plan, with the exception that no employee may receive options to purchase shares under the plan if, as a result of that option, the employee:

- would hold and/or have options to acquire five percent or more of our outstanding stock (by vote or value), or
- would have rights under this plan to purchase stock with an aggregate fair market value (determined at the time of grant) in excess of $25,000 for any calendar year during which such option is outstanding.

As of April 19, 2013, 316 employees were eligible to participate in the 1996 Plan.

Shares available for issuance

As a result of the proposed amendment, an aggregate of 650,000 shares will be available for issuance under the 1996 Plan. As of April 19, 2013, 563,900 shares had been issued. As of April 19, 2013 the fair market value of our common stock was $12.69 per share.

Administration

The 1996 Plan is administered by the Compensation Committee of our Board of Directors. The Compensation Committee has the authority to interpret the plan and prescribe, amend and rescind rules and regulations relating to the plan. The Compensation Committee s determinations with respect to any matter or provision under the plan are final and binding on us as well as the participants in the plan and their heirs or legal representatives.

Transferability

An employee s rights under the 1996 Plan may not be transferred or assigned to any other person during the employee s lifetime. After shares have been issued under the plan and credited to an employee under the plan, those shares may be assigned or transferred in the same manner as any other shares.

Adjustments

In the event of any merger, recapitalization, stock dividend, stock split or other adjustment to our capital stock, the Compensation Committee will make such adjustments to the 1996 Plan as it deems appropriate.

Amendment or termination

Our Board of Directors may amend, modify or terminate the 1996 Plan at any time without notice, provided that no amendment or termination may adversely affect the rights of participants holding options under the 1996 Plan at the time of such amendment or termination. Although shareholder approval is not generally required for plan amendments, Section 423 of the Code, which provides favorable tax treatment to plan participants with respect to the purchase of shares under the plan, requires shareholder approval for any increase in the number of shares authorized under the 1996 Plan.

New plan benefits

Because benefits under the 1996 Plan depend on employees elections to participate in the plan and the fair market value of the shares of our common stock at various future dates, it is not possible to determine future benefits that will be received by executive officers and other employees under the plan. Non-employee directors are not eligible to participate in the plan.

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Historical plan purchases

Historically, purchases of shares of our common stock under the 1996 Plan have been made primarily by our employees who are not executive officers. Since the inception of the plan, this group has purchased an aggregate of 525,264 shares under the plan, whereas our current executive officers, as a group, have purchased only 38,636 shares under the plan. Of the shares purchased by our named executive officers, 3,212 shares were purchased by Robert J. Balog and 4,349 shares were purchased by Patrick J. Spratt; none of Martin A. Kits van Heyningen, Peter A. Rendall, Brent C. Bruun, Daniel R. Conway has purchased any shares under the plan. Our non-employee directors are not eligible to participate in the plan.

No person has purchased or is currently expected to purchase five percent or more of the total number of shares available for grant under the 1996 Plan, and we are not aware that any associate of any executive officer or director has purchased shares under the 1996 Plan. Because participation in the plan is voluntary, the persons and groups listed above may purchase additional shares under the 1996 Plan.

Federal income tax consequences of the 1996 Plan

The following tax information is intended only as a brief overview of the current material United States federal income tax laws applicable to the 1996 Plan. The summary does not purport to be a complete description of all federal tax issues, nor does it address any state, local or foreign tax matters. Each participant in the 1996 Plan should consult his or her own tax advisors concerning the application of various tax laws that might affect his or her particular situation.

A participant in the 1996 Plan recognizes no taxable income either as a result of participation in the plan or upon exercise of an option to purchase shares of our common stock under the terms of the plan.

If an employee acquires shares of common stock pursuant to the plan and does not dispose of them within two years after the commencement of the offering pursuant to which the shares were acquired, nor within one year after the date on which the shares were acquired, any gain realized upon subsequent disposition will be taxable as a long-term capital gain, except that the portion of such gain equal to the lesser of (a) the excess of the fair market value of the shares on the date of disposition over the amount paid upon purchase of the shares, or (b) the excess of the fair market value of the shares on the commencement date of the applicable offering over the amount paid upon purchase of the shares, is taxable as ordinary income. There is no corresponding deduction for the company, however. If the employee disposes of the shares at a price less than the price at which he or she acquired the shares, the employee realizes no ordinary income and has a long-term capital loss measured by the difference between the purchase price and the selling price.

If an employee disposes of shares acquired pursuant to plan within two years after the commencement date of the offering pursuant to which the shares were acquired, or within one year after the date on which the shares were acquired, the difference between the purchase price and the fair market value of the shares at the time of purchase will be taxable to him or her as ordinary income in the year of disposition. In this event, we may deduct from our gross income an amount equal to the amount treated as ordinary income to each such employee. Any excess of the selling price over the fair market value at the time the employee purchased the shares will be taxable as long-term or short-term capital gain, depending upon the period for which the shares were held. If any shares are disposed of within either the two-year or one-year period at a price less than the fair market value at the time of purchase, the same amount of ordinary income (*i.e.,* the difference between the purchase price and the fair market value of the shares at the time of purchase) is realized, and a capital loss is recognized equal to the difference between the fair market value of the shares at the time of purchase and the selling price.

If a participating employee should die while owning shares acquired under the plan, ordinary income may be reportable on his or her final income tax return.

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PROPOSAL FOUR: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Proposal Four concerns the ratification of the appointment of KPMG LLP as our independent registered public accounting firm.

In accordance with its charter, the Audit Committee has selected the firm of KPMG LLP, an independent registered public accounting firm, to be our independent auditor for the year ending December 31, 2013 and, with the endorsement of the Board of Directors, recommends to stockholders that they ratify such appointment. KPMG LLP has served in this capacity since fiscal 1994. Its representatives will be present at the annual meeting and will have an opportunity to make a statement and be available to respond to appropriate questions.

A majority of the votes properly cast at the annual meeting will be necessary to ratify the selection by the Audit Committee of our Board of Directors of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013.

Our Board of Directors recommends that you vote FOR the proposed ratification of the appointment by our Audit Committee of KPMG LLP as our independent registered public accounting firm.

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DIRECTORS AND EXECUTIVE OFFICERS

Our executive officers and directors are as follows:

Name	Age	Position
Martin A. Kits van Heyningen	54	President, Chief Executive Officer and Chairman of the Board of Directors
Peter A. Rendall	47	Chief Financial Officer
Brent C. Bruun	47	Executive Vice President, Mobile Broadband
Daniel R. Conway	59	Executive Vice President, Guidance and Stabilization
Robert J. Balog	49	Senior Vice President, Engineering
James S. Dodez	54	Senior Vice President, Marketing and Strategic Planning
Felise B. Feingold	43	Vice President, General Counsel and Secretary
Robert W.B. Kits van Heyningen	56	Vice President, Research and Development and Director
Mark S. Ain (1)(2)(3)	70	Director
Stanley K. Honey (1)(3)	58	Director
Bruce J. Ryan (1)(2)(3)	69	Director
Charles R. Trimble (1)(2)(3)	71	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. Robert W.B. Kits van Heyningen is the brother of Martin A. Kits van Heyningen. Kathleen Keating, our senior director of creative and customer experience, is the wife of Martin A. Kits van Heyningen. Paula Conway, our program manager, is the wife of Daniel R. Conway.

Directors serving a term expiring at the 2013 annual meeting (Class II directors):

Martin A. Kits van Heyningen, one of our founders, has served as our president and a director since 1982, chief executive officer since 1990, and as our Chairman of the Board of Directors since 2007. 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 and has been issued six patents. Our Nominating and Corporate Governance Committee determined that Mr. Kits van Heyningen should serve as a director because of his more than 30 years of industry experience as well as his executive leadership and management experience as our founder, president, chief executive officer and Chairman of the Board of Directors.

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 that 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. In addition, Mr. Trimble is a member of the California Institute of Technology (Caltech) Board of Trustees. He received a B.S. in engineering physics, with honors, and an M.S. in electrical engineering from the California Institute of Technology. Our Nominating and Corporate Governance Committee determined that Mr. Trimble should serve as a director because of his 14 years of experience as a member of our Board of Directors combined with his executive leadership and management experience as co-founder, president and chief executive officer of Trimble Navigation Limited as well as his experience as an elected member of the National Academy of Engineering, Chairman of the United States GPS Industry Council and a member of the California Institute of Technology Board of Trustees.

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Directors serving a term expiring at the 2014 annual meeting (Class III directors):

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 September 2008 to June 2009, he also served as an Adjunct Professor at the University of Rhode Island School of Engineering. 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. Our Nominating and Corporate Governance Committee determined that Mr. Kits van Heyningen should serve as a director because of his more than 30 years of industry experience, combined with his extensive background in engineering, as well as his 31 years of experience as a member of our Board of Directors.

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 involved in private consulting. 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 1998, 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. He currently serves on the Board of Directors of two private companies and served as a director of UTStarcom, Inc. from April 2008 to December 2010. He received a B.S. in business administration from Boston College and an M.B.A. from Suffolk University. Our Nominating and Corporate Governance Committee determined that Mr. Ryan should serve as a director because of his more than nine years of experience as a member of our Board of Directors combined with his experience as a member of the Board of Directors for numerous private and public companies, his familiarity with accounting matters, as well as his executive and management experience serving as executive vice president and chief financial officer of Global Knowledge Network and Amdahl Corporation, both providers of information technology, and his 25 years of experience at Digital Equipment Corporation.

Directors serving a term expiring at the 2015 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 Chairman of the Board of Directors of Kronos Incorporated, which he founded in 1977 and served as CEO until 2005. Mr. Ain also serves on the Board of Directors of LTX-Credence Corporation, VeruTEK Technologies, Inc., and various other private companies and charitable organizations. He received a B.S. from the Massachusetts Institute of Technology and an M.B.A. from the University of Rochester. Our Nominating and Corporate Governance Committee determined that Mr. Ain should serve as a director because of his 16 years of experience as a member of our Board of Directors combined with his executive and management experience serving as founder, chief executive officer and Chairman of the Board of Directors of Kronos Incorporated as well as his experience as a member of the Board of Directors of LTX-Credence Corporation and various private companies.

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. Mr. Honey was a member of the Audit Committee from 1997 to 2003 and was reappointed in February 2011. Mr. Honey has been serving as the Director of Technology for the America s Cup Event Authority since April 2011. From January 2004 through January 2005, Mr. Honey 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, LLC, from 2000 to January 2004 and as its

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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. Our Nominating and Corporate Governance Committee determined that Mr. Honey should serve as a director because of his 16 years of experience as a member of our Board of Directors as well as his executive and management experience serving in numerous senior level executive positions, his experience as co-founder of Sportvision Systems, LLC and founder of ETAK and his extensive knowledge of our marine customer base and the industry.

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

Peter A. Rendall has served as our chief financial officer since October 2012. Before joining us, from July 2011 to June 2012, Mr. Rendall served as consulting chief financial officer for JobSmart Partners, a company that provided IT consulting and contract services for software development teams. Prior to that, from June 2003 to April 2011, he served as chief executive officer of Top Layer Networks, Inc., an information technology security company, where he served as chief financial officer from March 2003 to June 2003. From October 1999 to March 2003, he served as chief financial officer of Elcom International, Inc., a NASDAQ-listed international information technology products and services business. From April 1999 to September 1999, Mr. Rendall was Vice President of Finance of Elcom Services Group, Inc. From July 1996 to March 1999, Mr. Rendall served as Vice President of Finance and Operations of Logica North America, Inc., a subsidiary of Logica, plc, a U.K. publicly held international software integration services company. Mr. Rendall began his career at PricewaterhouseCoopers LLP in London in August 1987, before transferring to its Boston office in June 1995 as a senior manager, a position he held until July 1996. Mr. Rendall holds a B.S. in biochemistry from the University of London and has been a member of the Institute of Chartered Accountants in England and Wales since 1991.

Robert J. Balog has served as our senior vice president of engineering since October 2008. Previously, he served as our vice president of engineering, satellite products from February 2005 to October 2008. 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.

Brent C. Bruun has served as our executive vice president of mobile broadband since November 2012. From January 2011 to November 2012, he served as our senior vice president of global sales and business development. He served as our vice president of global sales and business development from July 2008 to December 2010. From January 2008 until joining KVH, Mr. Bruun worked as a private consultant. From January 2007 until January 2008, Mr. Bruun served as senior vice president of strategic initiatives for SES AMERICOM, a satellite operator providing services via its fleet of 16 geosynchronous satellites covering North America. In this position, he concentrated on global mobile broadband opportunities with particular emphasis on the maritime and aeronautical markets. Other positions held at SES AMERICOM included president of Americom s Managed Solutions Division from July 2004 until December 2006 and senior vice president of business development from July 2002 until June 2004. Previously, Mr. Bruun held positions at KPMG LLP and General Electric. Mr. Bruun holds a B.S. in accounting from Alfred University and is a certified public accountant.

Daniel R. Conway has served as our executive vice president of guidance and stabilization since November 2012. From January 2003 to November 2012, he served as our vice president of business development for

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military and industrial products. From March 2000 to December 2002, Mr. Conway was the vice president of sales 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 senior vice president of marketing and strategic planning since March 2013. From March 2007 to February 2013, he served as our vice president of marketing and strategic planning. From October 1998 to March 2007, he served as our vice president of marketing. He served as our vice president of marketing and reseller sales from 1995 to October 1998, and from 1986 to 1995, he served as our marketing director. Before joining us, Mr. Dodez was the marketing director at Magratten Wooley, Inc., an advertising agency, where he managed KVH s account from 1983 to 1986. Mr. Dodez received a B.S. in business with an emphasis in marketing from Miami University.

Felise B. Feingold has served as our vice president and general counsel since August 2007. Before joining us, from January 2004 until July 2007, she held the position of vice president and general counsel for The Jean Coutu Group (PJC) USA, Inc., which operated the Brooks/Eckerd pharmacy chain, comprising more than 1,800 stores. Her other experience includes six years, from September 1998 to December 2004, as an attorney with the international law firm of McDermott, Will & Emery. Ms. Feingold holds a B.A. in government from Cornell University, a J.D. from Hostra University School of Law, and an M.B.A. from Boston University Graduate School of Management.

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COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Overview of Executive Compensation Program

Our executive compensation program is overseen and administered by the Compensation Committee of our Board of Directors, which is comprised entirely of independent directors as determined in accordance with various NASDAQ Stock Market, United States Securities and Exchange Commission, or SEC, and Internal Revenue Code rules. None of its members is a current or former employee of ours. It is the goal of the Compensation Committee to create policies and practices that provide total compensation for executive officers that is fair, reasonable and competitive. The Compensation Committee operates under a written charter adopted by our Board.

All principal elements of compensation paid to our executive officers are subject to approval by the Compensation Committee. Specifically, our Board has delegated authority to the Compensation Committee to determine and approve (1) our compensation philosophy, including evaluating risk management and incentives that create risk, (2) annual base salaries, cash-based incentive compensation and equity-based compensation applicable to our executive officers, and (3) equity-based compensation applicable to non-executive employees.

There are no material differences in the compensation policies, objectives or programs with respect to our named executive officers, except that the compensation for our President, Chief Executive Officer, and Chairman of the Board of Directors (CEO) is determined exclusively by the Compensation Committee, while the compensation of our other named executive officers is determined by the Compensation Committee based on similar criteria, but also takes into account the recommendations of our CEO.

Executive Compensation Philosophy and Objectives

Our executive compensation program is designed to attract, retain and motivate highly qualified executives and align their interests with the interests of our stockholders. The ultimate goal of our executive compensation program is to increase stockholder value by providing executives with appropriate incentives to achieve our business goals. In recent years, our executive compensation program has had three principal elements: annual base salary, annual cash-based incentive compensation, and longer-term equity-based compensation.

Our executive compensation objectives are to:

- offer fair and competitive compensation that attracts and retains superior executive talent;
- directly and substantially link rewards to measurable corporate performance;
- align the interests of executive officers with those of stockholders by providing executive officers with an equity stake in our company;
- optimize the cost to us and value to executives; and
- promote long-term career commitments that support a long-standing internal culture of loyalty and dedication to our interests.

The three principal elements of our executive compensation program seek to provide the following rewards:

Base salaries provide fixed compensation to reward individual value that an executive officer brings to us through experience and past and expected future contributions to our success, while factoring in our specific needs and comparable responsibilities at similar organizations.

Annual cash-based incentive compensation is designed to reward the achievement of our annual business and financial goals and certain individual performance goals set at the beginning of each year.

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This incentive program generally awards compensation based on the degree to which our actual financial results meet the financial goals of our internal business plan and the degree to which the executives meet their individual performance goals.

Equity grants are designed to reward the achievement of long-term growth in our stock price. Our equity grants for 2012 consisted of stock option awards. No restricted stock awards were granted in 2012. Stock options were granted with an exercise price equal to the closing price of our common stock on the NASDAQ Global Select Market on the date of grant and have a five-year life. The stock options vest in four equal annual installments, the first of which vested on February 28, 2013, the first anniversary of the grant date.

For a company of our size, we believe that the use of these executive compensation elements strengthens our ability to attract and retain highly qualified executives. We believe this combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages executive recruitment and retention.

Our equity incentive program is a key retention tool and our vehicle for offering long-term incentives. Equity incentives are granted annually to executive officers to attract, motivate and retain these executives. We grant equity incentives to executive officers to encourage executive officers to work with a long-term view in the interest of shareholders and to reward the achievement of long-term growth in our stock price. We believe that granting equity incentives is the best method of motivating the executive officers to perform in a manner that is consistent with the long-term interests of our stockholders.

Compensation Decision-making Process

Our executives are compensated principally through a combination of base salary, cash-based incentive compensation paid in the first quarter of the following year and an annual equity grant. In addition, we may also grant an initial equity award to new executive officers when they commence employment. From time to time, we may offer a signing or retention bonus to attract a new executive officer.

The base salary and equity award for each executive, together with the overall cash-based incentive compensation plan for all executives, are generally established within the first quarter of each fiscal year at meetings of the Compensation Committee held for this purpose. These meetings generally follow one or more informal presentations or discussions of our financial performance, including achievement of performance targets, for the prior fiscal year. In deciding the compensation to be awarded to the executive officers other than the CEO for the current year and cash-based incentive compensation earned during the prior fiscal year, the Compensation Committee typically receives recommendations from the CEO. The CEO and the members of the Compensation Committee discuss the CEO s recommendations. In deciding the compensation to be awarded to the CEO for the current year and the cash-based incentive compensation earned by the CEO during the prior year, the Compensation Committee typically receives a written self-assessment from the CEO and recommendations from the Chairman of the Compensation Committee. The members of the Compensation Committee then discuss the Chairman s recommendations. The CEO is not present at the time of these deliberations. The Compensation Committee may accept or adjust any recommendations and makes all final compensation decisions.

Our cash-based incentive compensation program comprises both corporate performance goals and individual performance goals; typically, three-fourths of each executive s target incentive compensation is based on the degree of achievement of our corporate performance goals and one-fourth is based on the degree of achievement of individual performance goals. The corporate performance portion of the cash-based incentive compensation program is generally based on a formula approved by the Compensation Committee at the start of each year, but the Compensation Committee has the discretion to award incentive compensation that differs from the formula-based amounts. The individual performance goals for the executive officers other than the CEO are determined by the CEO or the Chief Financial Officer, with input from each executive at the beginning of the year. The individual performance goals for the CEO are determined by the Compensation Committee, with input from the CEO.

Compensation Consultant

Since 2005, the Compensation Committee has engaged Radford Surveys and Consulting, or Radford, a business unit of Aon, as its independent compensation consultant. The Compensation Committee has engaged Radford to advise on matters related to our executive compensation program and to assist in creating an effective and competitive executive compensation program. A comprehensive Radford study was provided in 2011 and was increased by an annual factor based on the results of Radford s technology industry surveys to determine the 2012 recommendations.

Radford assisted the Compensation Committee by providing comparative market data on compensation practices and programs based on an analysis of executive compensation survey data. Radford also provided guidance on industry best practices. Radford advised the Compensation Committee in (1) determining base salaries for executives, (2) determining the targets for total cash-based incentive compensation as a percentage of base salary, and (3) designing and determining individual equity grants for the 2012 long-term incentive plan for executives.

Radford s recommendations with respect to base salary, cash-based incentive compensation and equity-based compensation were taken into consideration by the Compensation Committee when setting base salaries and making changes to the cash-based incentive compensation and equity-based compensation components of the executive compensation program in 2012. Neither Radford nor any of its affiliates provided any services to us in 2012 other than Radford s services to the Compensation Committee.

Peer Group, Survey Data and Compensation Targets

With the assistance of Radford, the Compensation Committee compared our executive officers compensation to that of a peer group of companies. For 2012, the peer group consisted of 18 public high technology companies which were selected by Radford in 2011 and approved by the Compensation Committee based on their respective businesses, revenues, market capitalization and the number of employees. In addition to the peer group, Radford reviewed data from the Radford Global Technology Survey, which includes approximately 160 high technology companies with revenues of less than $200 million with the median revenue for the group being approximately $77 million. Both the peer group and the survey data had an effective date of January 1, 2011 and were then increased by a 3.0% annual factor based on the results of Radford s technology industry surveys to update the previous market survey results to a common effective date of January 1, 2012. The Compensation Committee considered aggregated information taken from the Radford Executive High Technology Survey and used this information to further evaluate the compensation information of our peer group. The 18 companies included in our peer group were as follows:

Anaren, Inc.
Applied Signal Technology
Argon ST, Inc.
Astronics Corporation
CalAmp
Ditech Networks
DSP Group
EMS Technologies, Inc.
Environmental Tectonics Corporation
Globecomm Systems, Inc.
Herley Industries, Inc.
Innovative Solutions and Support, Inc.
Network Equipment Technologies, Inc.
NextWave Wireless, Inc.
Occam Networks, Inc.
PCTEL, Inc.
Sycamore Networks
Zhone Technologies

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Compensation Benchmarking Relative to Market

Radford also provided the Compensation Committee with a comparison of the compensation of our executives to the compensation of executives with similar titles at the companies included in the aforementioned peer group. The assessment did not consider executive tenure, experience, skill or performance. The Radford data reviewed by the Compensation Committee included market data taken from the aforementioned peer group and the Radford Global Technology Survey (collectively, survey data), which was combined and weighted equally and then gathered at the 25^{th}, 50^{th}, and 75^{th} percentiles for (1) base salaries, (2) bonus, (3) total cash compensation (base salary plus cash incentives), (4) long-term incentives (number of shares of restricted stock and stock options granted and long-term incentive value of equity-based compensation), (5) stock option equivalents as a percentage of total outstanding shares of the company, and (6) total direct compensation (total cash compensation and long-term incentives).

Historically, the Compensation Committee has generally targeted approximately the median base salary level (50^{th} percentile) of the base salaries of executives in the survey data used by the Compensation Committee as the basis for comparison for that year. Adjustments to median base salary levels were made based on comparisons to the survey data and evaluation of other factors, such as executive tenure, experience, skill and performance relative to expectations for average performance for comparable executives, which are not reflected in the survey data. These factors reflect the value each individual brings to us through experience, education and training, our specific needs, and the individual s past and expected future contributions to our success. Radford advised the Compensation Committee that base salary levels are considered to be competitive if they fall within 10% of the desired market position. For 2012, base salaries for our named executive officers ranged from approximately 6% below to approximately 7% above the 50^{th} percentile for the base salary of the relevant position.

We believe that benchmarking and aligning base salaries is especially critical to a competitive compensation program. Other elements of our compensation are affected by changes in base salary. For example, our annual cash-based incentive compensation is targeted and paid out as a percentage of base salary.

Our compensation program allows executives to participate in an annual cash-based incentive compensation program. Historically, the payouts for our executives for achieving the expected level of corporate performance for the year (as a percentage of base salary) have been targeted to pay out at approximately the median (50^{th} percentile) of payouts for executives in the survey data used by the Compensation Committee as the basis for comparison for that year. As a percentage of base salary, targets for cash-based incentive compensation to the named executive officers for 2012 were at the 50^{th} percentile of the Radford survey data, with the exception of two individuals whose targets were approximately 5% below the 50^{th} percentile of the survey data.

Our compensation program allows executives to receive equity incentive awards under our equity incentive plans. Our primary goal is to create long-term value for stockholders, and accordingly the Compensation Committee believes that equity incentive awards provide an additional incentive to executive officers to work to maximize stockholder value. Typically, as was the case in 2012, all named executive officers other than the CEO and Chief Financial Officer receive the same quantity of equity awards, as their roles and responsibilities have been valued at an equivalent level. The Compensation Committee believed that granting equity incentives in this manner was the best method of motivating our executive team to perform in a manner consistent with the long-term interests of our stockholders. The CEO and Chief Financial Officer typically receive larger equity awards because they have greater responsibility for achieving our long-term goals. The fair value of the equity awards granted to our CEO approximated the 50th percentile of the Radford survey data. The Chief Financial Officer was appointed in October 2012 and received an initial grant of 50,000 options. Initial equity awards associated with an executive s date of hire are not included in our analysis of the annual executive equity awards or the Radford survey data. This initial grant was based on Radford Global Technology Survey data for Chief Financial Officer initial equity awards, which includes technology companies with revenues less than $200 million with the median revenue for the group being approximately $107 million. The fair value of the equity awards granted to all other named executive officers in 2012 was between the 25^{th} and 50^{th} percentile of the Radford survey data.

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Radford advised the Compensation Committee that Radford considers target total direct compensation levels to be competitive if they fall within 30% of the desired market position. When taking into consideration the base salary, annual cash-based incentive compensation and the equity grants made during 2012, the total direct compensation for Martin A. Kits van Heyningen, our CEO and Chairman of the Board, was approximately 9% below the 50th percentile of the Radford survey data. The total direct compensation for Peter A. Rendall, our Chief Financial Officer, based on the value of his initial equity award and the annualized amounts of the salary and cash-based incentive compensation that he earned for his partial year of service, was at the 75th percentile of the Radford survey data. The average total direct compensation for all other named executive officers was 6% below the 50th percentile of the Radford survey data.

Base Salary

The Compensation Committee defines base salary as the annualized regular cash compensation of an employee, excluding cash bonus awards, corporate contributions to employee benefit plans, and other compensation not designated as salary. As described above, base salaries are set for our named executive officers at a meeting of our Compensation Committee which is held for that purpose in the first quarter of the year.

In establishing base salaries for our named executive officers for 2012, the Compensation Committee took into account the value each individual brings to us through experience, education and training, our specific needs, and the individual s past and expected future contributions to our success, as well as our overall corporate performance. For 2012, the average adjustment to salaries for our named executive officers was an increase equal to 2.8% of base salary for 2011, with the largest increase equal to 2.9% of base salary for 2011. These adjustments were effective January 1, 2012.

The following summarizes some of the individual achievements of the CEO considered by the Compensation Committee for his 2012 base salary increase:

Martin Kits van Heyningen, President, Chief Executive Officer and Chairman of the Board

- Achieved long-term VSAT broadband business goals, establishing airtime services as a major recurring source of revenue, representing approximately one-third of our total revenue in 2011.

- Successfully developed a new corporate organizational structure that better integrates our service component with the rest of our operations to prepare for growth.

- Continued to drive innovation in product design and new concepts. Successfully introduced a number of new products that the Compensation Committee believes were well received by the market.

In light of these factors, Mr. Kits van Heyningen received a 2.4% increase in base salary for 2012, which approximated the 50th percentile in the Radford survey data.

The following summarizes some of the individual achievements of our other named executive officers considered by the CEO in providing recommendations to the Compensation Committee for 2012 base salary increases:

Patrick J. Spratt, Chief Financial Officer

- Supported the business, regulatory and financial planning for the mini-VSAT broadband business to facilitate achievement of our bottom-line goals.

- Led the fiber optic gyro facility and equipment improvement plan efforts.

Captured substantial investment tax credit.

Managed the construction of our new manufacturing facility, which was completed on time and below budget.

In light of these factors, Mr. Spratt received a 2.9% increase in base salary for 2012, which approximated the 50th percentile in the Radford survey data.

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Brent C. Bruun, Executive Vice President, Mobile Broadband

- Achieved significant expansion of the mini-VSAT broadband network satellite infrastructure through the opening of our Singapore office as well as the addition of new distributors and/or wholesalers in Latin America.

- Strengthened and extended our direct and partner sales channels, enabling access to all targeted worldwide maritime markets.

- Achieved greater than 50% year-over-year revenue growth for the mini-VSAT broadband business.

- Sustained our leadership position in the leisure maritime satellite television market.

In light of these factors, Mr. Bruun received a 2.9% increase in base salary for 2012, which approximated the 50th percentile in the Radford survey data.

Robert J. Balog, Senior Vice President, Engineering

- Maintained our leadership position in the marine television market.

- Improved the new product development process, while also managing research and development spending within budget amounts.

- Supported fiber optic gyro research methods and engineering for increased performance and reliability while reducing the size and cost of our fiber optic gyros.

In light of these factors, Mr. Balog received a 2.9% increase in base salary for 2012, which approximated the 50th percentile in the Radford survey data.

Daniel R. Conway, Executive Vice President, Guidance and Stabilization

- Achieved significant expansion of TACNAV product revenue capturing over $14 million in new contracts and nearly tripling revenue year-over-year.

- Contributed to the successful expansion of our mini-VSAT Broadband service through performance on our 10 year, $42 million U.S. Coast Guard contract, and by expanding satellite hardware sales and airtime service into other U.S. and allied government and military organizations.

- Executed on a base of multi-year, multi-million dollar contracts, with associated booked backlog across several fiscal years.

- Positioned us for success on three major TACNAV and fiber optic gyro contracts that were eventually awarded in 2012.

In light of these factors, Mr. Conway received a 2.9% increase in base salary for 2012, which approximated the 50th percentile in the Radford survey data.

Peter A. Rendall, Chief Financial Officer

Mr. Rendall was appointed our Chief Financial Officer on October 1, 2012 at a base salary of $250,000. The base salary was based on Radford Global Technology Survey data for salaries for a chief financial officer, which includes technology companies with revenues less than $200 million with the median revenue for the group being approximately $107 million.

Annual Cash-based Incentive Compensation

Our management incentive plan is designed to reward our executives for the achievement of annual goals, principally, achievement of corporate financial goals, and, secondarily, achievement of individual goals. It is our philosophy that the executives be rewarded for their performance as a team. We believe this is important to align our executive officers interests with strong corporate performance and to promote cooperation among them. The executives also are rewarded for achieving individual goals set at the beginning of each year.

Formula for Cash-based Incentive Compensation

In March 2012, the Compensation Committee adopted the management incentive plan for 2012. The management incentive plan for 2012 was adopted based on our historical financial performance, planned strategic initiatives and the existing economic environment. Annual cash-based incentive compensation opportunities as a percentage of base salary were targeted at 75% of base salary for the CEO, 50% of base salary for the Chief Financial Officer (Mr. Spratt) and 40% of base salary for the other named executive officers. The Compensation Committee approved two formulas for calculating the cash-based incentive compensation with respect to the executives, one formula for the executives responsible for sales and one formula for all other executives. Under the incentive compensation formula for each sales executive for 2012, 75% of the sales executives target incentive compensation was tied to achievement of budgeted revenue targets. The threshold for payment was achievement of 85% of the individual s budgeted revenue target, in which case 60% of this portion of the bonus would have been earned. The maximum bonus payment for the individual s achievement of budgeted revenue targets would have been awarded if he had exceeded his individual budgeted revenue target by 25%, in which case the payment would have been equal to 200% of this portion of the target bonus. The remaining 25% of the target incentive compensation for each sales executive was tied to corporate performance. Corporate performance was measured by the achievement of our goals for (i) revenue and (ii) earnings before interest, taxes, depreciation, amortization, and equity-based compensation expenses, or Adjusted EBITDA. The threshold for payment of the portion of the bonus for corporate performance for the sales executives was our achievement of 85% of the Adjusted EBITDA budget, and at this level of achievement, 50% of the target bonus for corporate performance would have been earned. If we did not meet this threshold, the payment for the corporate performance portion of the bonus would have been zero. The maximum bonus payment for corporate performance would have been awarded if we had exceeded the Adjusted EBITDA budget by 25%, in which case the payment would have been 200% of the target bonus for corporate performance.

The Compensation Committee approved a formula for determining the bonus of all other named executive officers based 75% on corporate performance goals and 25% on individual performance goals. The portion of the bonus plan based on achieving corporate performance goals used a sliding scale to determine bonus amounts based on the degree of achievement of our goals for growth in 2012 in (i) revenue and (ii) Adjusted EBITDA. The portion of the bonus based on individual performance for such executives was based solely on the discretion of the Compensation Committee.

The bonus payment for corporate performance would have been 100% for all such executives if we had achieved our budgeted targets for revenue and Adjusted EBITDA. The threshold for payment of the portion of the bonus for corporate performance was our achievement of 100% of the budgeted target for revenue and 85% of the Adjusted EBITDA budget and at this level of achievement, 50% of the target bonus for corporate performance would have been earned. The maximum bonus payment for corporate performance would have been awarded if we had exceeded our budgeted targets for revenue and Adjusted EBITDA by 15% and 25%, respectively, in which case the payment would have been 233% of the target bonus for corporate performance.

Incentive Compensation Awarded

The Compensation Committee awarded incentive compensation for fiscal 2012 based on its assessment of the degree of achievement of corporate and individual performance goals for 2012. We achieved our budgeted targets for revenue and Adjusted EBITDA for 2012, resulting in a bonus payment of 101% of target for the corporate performance portion of the incentive compensation award. The Chief Financial Officer s incentive bonus was pro-rated based on his partial year of service during 2012. For Brent C. Bruun and Daniel R. Conway, our sales executives, the portion of the incentive compensation award based on the degree of achievement of the

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budgeted revenue target was paid on 100% and 125% achievement, respectively. Achievement of individual performance goals for the remaining named executive officers ranged from 95% to 100%. The total cash-based incentive compensation awarded to Daniel R. Conway as a percentage of his base salary was approximately 30% above the 50th percentile of the Radford survey data because he exceeded his individual budgeted revenue target by 25%. The total cash-based incentive compensation awarded to all other named executive officers as a percentage of their base salary ranged from approximately 5% below to 5% above the 50th percentile of the Radford survey data.

Equity Incentive Program

The equity grant to our CEO in 2012 was based upon the Radford survey data for grants to other chief executive officers, the CEO s prior performance, the value of equity awards previously granted and unvested and the importance of retaining the CEO s services. These factors, as well as the CEO s achievements as listed above in determining his 2012 base salary, were taken into consideration when determining the number of shares covered by the equity grant. The equity grant to our new CFO in 2012 was an initial grant when he was appointed CFO in October 2012 and was based on guidance provided by Radford. In light of Mr. Spratt s announced plans to retire in 2012, he did not receive an equity grant in 2012. When granting equity incentives to our other named executive officers, a team approach was utilized. In 2012, as is typical, all named executive officers other than the CEO and Chief Financial Officer received the same number of equity awards, as their roles and responsibilities were valued at an equivalent level. The Compensation Committee believed that granting equity incentives in this manner was the best method of motivating our executive team to perform in a manner consistent with the long-term interests of our stockholders. The CEO and Chief Financial Officer received larger awards because they have greater responsibility for achieving our long-term goals.

Timing of Equity Grants

We typically grant equity incentives to executives in the first quarter of each fiscal year, usually in conjunction with the annual review of the individual and collective performance of our executive officers.

Historically, we have given restricted stock awards or stock options to new employees upon hire. These awards have typically been approved and granted at the first Compensation Committee meeting subsequent to the employee s start date. The Compensation Committee determined that, as of January 1, 2011, it would no longer grant restricted stock awards or stock options to every new hire but instead would grant them to new hires on a case-by-case basis. In addition, we typically grant restricted stock awards or stock options to certain non-executive employees each year.

Exercise Price and Vesting of Equity Awards

Stock options are granted with an exercise price equal to the closing price of our common stock on the NASDAQ Global Select Market on the date of grant. Stock options granted in 2012 have a life of five years and generally vest in four equal annual installments, the first of which vests on the first anniversary of the grant date. Under this vesting schedule, the options are fully exercisable four years after the date of grant, provided that the recipient remains an employee during that period. All of the equity incentive awards granted to our named executive officers in 2012 were stock options.

Other Compensation and Perquisites

Our executive officers are eligible to receive the same health and welfare benefits that are available to other employees and a contribution to their benefit premium that is the same percentage as provided to other employees. These benefit programs include health and dental insurance, life insurance, supplemental life insurance, and long-term disability insurance, and certain other benefits. In general, our employees pay between 29% and 34% of the health insurance premium due.

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We maintain an Employee Stock Purchase Plan and a tax-qualified 401(k) plan, which provides for broad-based employee participation. Under the 401(k) plan, all of our employees, including executive officers, are eligible to receive matching contributions from us. We presently match 50% of all employee 401(k) plan contributions up to 4% of salary, with a maximum annual corporate match per employee of $3,000. We do not provide defined benefit pension plans or defined contribution retirement plans to our executives or other employees other than the 401(k) plan.

We provided automobile and/or housing allowances to four named executive officers in 2012. Martin A. Kits van Heyningen s auto allowance was $10,733 and Robert J. Balog s was $6,000. Brent C. Bruun received $15,000 in 2012 for automobile and housing allowances. Peter A. Rendall received $3,750 in 2012 for housing allowances. No other named executive officers received any other perquisites or other personal benefits or property from us during 2012.

Equity Ownership by Executives

We do not currently have a formal stock ownership requirement for executives or any related hedging policies. However, stock ownership by executives is encouraged on a voluntary basis. Each of our executive officers holds both vested and unvested stock options and restricted stock awards to the extent shown in the table entitled Outstanding Equity Awards as of December 31, 2012. The Compensation Committee reviews the vested and unvested stock options and restricted stock awards held by the executives each year.

Tax and Accounting Considerations

Section 162(m) of the Internal Revenue Code limits our ability to deduct annual compensation in excess of $1,000,000 that is paid to each of our CEO and our three most highly paid executive officers (other than the CEO and the Chief Financial Officer), unless that compensation is performance-based within the meaning of Section 162(m) and the regulations promulgated there under. The restricted stock awards that we grant under the 2006 Plan do not qualify as performance-based compensation. We believe that all of our stock options do so qualify and therefore are not subject to the deduction limitation of Section 162(m). The salary and bonuses paid to our executive officers are not exempt from this deduction limit. Accordingly, we may be unable to deduct some of the amounts that may be recognized as ordinary income by our executive officers.

We consider tax deductibility in the design and administration of our executive officer compensation plans and programs. However, we believe that it is in the best interests of our stockholders that we retain flexibility and discretion to make compensation awards, whether or not deductible, when such awards are consistent with our strategic goals.

Rules under generally accepted accounting principles determine the manner in which we account for grants of equity-based compensation to our employees in our consolidated financial statements. Our accounting policies for equity-based compensation are further discussed in note 7 of our audited consolidated financial statements in our Form 10-K for the year ended December 31, 2012, as filed with the SEC on April 2, 2013.

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SUMMARY COMPENSATION TABLE

For 2012

The following table provides information concerning the compensation earned by our CEO, each individual that served as our Chief Financial Officer during 2012 and each of our three most highly compensated executive officers other than the CEO and Chief Financial Officer (collectively, named executive officers) during 2012. In addition, we are providing information regarding the compensation earned by Robert W.B. Kits van Heyningen, who is a director and an immediate family member of Martin A. Kits van Heyningen, our President, Chief Executive Officer and Chairman of the Board of Directors. We are treating Robert W.B. Kits van Heyningen as a named executive officer for purposes of our executive compensation disclosures (other than the Compensation Discussion and Analysis) in lieu of the information that we would otherwise provide in response to the disclosure requirements for director compensation and related-party transactions.

In 2012, the salary and bonus (including the non-equity incentive plan compensation) of our named executive officers as a percentage of total compensation ranged from 64% to 73%, excluding Peter A. Rendall and Patrick J. Spratt. Mr. Rendall was appointed as our Chief Financial Officer on October 1, 2012, and his non-equity incentive plan compensation was proportionate to his period of service in 2012. Because Mr. Rendall received a substantial initial equity grant in connection with his hiring, his salary and bonus (including his non-equity incentive plan compensation) comprised approximately 21% of his total compensation for 2012. Mr. Spratt did not receive any equity awards during 2012, in light of his announced plan to retire that year. Accordingly, his salary and bonus (including his non-equity incentive plan compensation) comprised approximately 99% of his total compensation for 2012.

Name and Principal Position