
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2002.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission File Number (0-21767)

ViaSat, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0174996
(I.R.S. Employer
Identification No.)

6155 El Camino Real, Carlsbad, California 92009
(760) 476-2200

(Address, including zip code, and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The number of shares outstanding of the registrant's Common Stock, \$.0001 par value, as of November 11, 2002 was 26,018,338.

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VIASAT, INC.

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VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2002	September 30, 2002
Assets		
(Unaudited)		
Current assets:		
Cash and cash equivalents	\$ 6,464	\$ 7,950
Short-term investments	156	157
Accounts receivable, net	80,170	74,483
Inventory	30,116	31,248
Deferred income taxes	2,974	3,189
Prepaid expenses and other current assets	7,343	11,242
	<hr/>	<hr/>
Total current assets	127,223	128,269
Goodwill	19,456	19,480
Other intangible assets, net	43,922	39,697
Property and equipment, net	31,117	32,427
Other assets	16,949	19,972
	<hr/>	<hr/>
Total assets	\$238,667	\$239,845
	<hr/>	<hr/>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 16,069	\$ 18,085
Accrued liabilities	17,796	14,003
Line of credit	9,900	18,350
	<hr/>	<hr/>
Total current liabilities	43,765	50,438
Other liabilities	2,549	2,150
	<hr/>	<hr/>
Total liabilities	46,314	52,588
	<hr/>	<hr/>
Contingencies (Note 7)		
Minority interest in consolidated subsidiary	414	414
	<hr/>	<hr/>
Stockholders' equity:		
Common stock	2	3
Paid in capital	152,775	153,492
Retained earnings	39,485	33,748
Unearned compensation	(138)	(87)
Accumulated other comprehensive income (loss)	(185)	(313)
	<hr/>	<hr/>
Total stockholders' equity	191,939	186,843
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$238,667	\$239,845
	<hr/>	<hr/>

See accompanying notes to condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2002	2001	2002
Revenues	\$ 49,524	\$ 39,497	\$ 98,358	\$ 82,360
Cost of revenues	33,978	31,914	67,920	61,278
Gross profit	15,546	7,583	30,438	21,082
Operating expenses:				
Selling, general and administrative	8,370	8,888	16,365	17,626
Independent research and development	1,831	3,489	3,111	9,187
Acquired in-process research and development	2,500	—	2,500	—
Amortization of intangible assets	1,117	2,112	1,715	4,223
Amortization of goodwill	436	—	872	—
Income (loss) from operations	1,292	(6,906)	5,875	(9,954)
Other income (expense):				
Interest income	188	16	406	30
Interest expense	(92)	(184)	(97)	(309)
Minority interest	(13)	(12)	(90)	(16)
Equity in loss of joint venture	(716)	(630)	(1,440)	(1,159)
Income (loss) before income taxes	659	(7,716)	4,654	(11,408)
Provision (benefit) for income taxes	212	(3,561)	1,503	(5,671)
Net income (loss)	\$ 447	\$ (4,155)	\$ 3,151	\$ (5,737)
Basic net income (loss) per share	\$.02	\$ (.16)	\$.14	\$ (.22)
Diluted net income (loss) per share	\$.02	\$ (.16)	\$.14	\$ (.22)
Shares used in basic net income (loss) per share computation	22,475,866	26,008,006	22,253,529	25,959,822
Shares used in diluted net income (loss) per share computation	23,427,209	26,008,006	23,188,651	25,959,822

See accompanying notes to condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Six Months Ended September 30,	
	2001	2002
Cash flows from operating activities:		
Net income (loss)	\$ 3,151	\$ (5,737)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,263	5,135
Amortization of goodwill, intangible assets and software	2,614	4,753
Acquired in-process research and development	2,500	—
Deferred income taxes	(354)	(362)
Equity in loss of joint venture	1,440	1,159
Minority interest in consolidated subsidiary	52	—
Non-cash compensation	—	51
Increase (decrease) in cash resulting from changes in, net of effects of acquisitions:		
Accounts receivable	(880)	5,701
Inventory	(6,436)	(1,319)
Other assets	8,659	(3,770)
Accounts payable	(2,390)	2,015
Accrued liabilities	3,236	(3,804)
Other liabilities	936	(333)
Net cash provided by operating activities	<u>15,791</u>	<u>3,489</u>
Cash flows from investing activities:		
Acquisition of a business	(11,424)	—
Investment in joint venture	(1,440)	(1,159)
Purchases of short-term investments, net	(153)	(1)
Investment in capitalized software	(4,253)	(3,559)
Purchases of property and equipment, net	(9,409)	(6,445)
Net cash used in investing activities	<u>(26,679)</u>	<u>(11,164)</u>
Cash flows from financing activities:		
Proceeds from line of credit	5,518	8,450
Repayment of notes payable	(336)	—
Net proceeds from issuance of common stock, net of issuance costs	866	718
Net cash provided by financing activities	<u>6,048</u>	<u>9,168</u>
Effect of exchange rate changes on cash	(96)	(7)
Net (decrease) increase in cash and cash equivalents	(4,936)	1,486
Cash and cash equivalents at beginning of period	17,721	6,464
Cash and cash equivalents at end of period	<u>\$ 12,785</u>	<u>\$ 7,950</u>

See accompanying notes to condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(In thousands, except share data)

	Common Stock		Paid in Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
	Number of Shares	Amount						
Balance at March 31, 2002	25,908,373	\$ 2	\$152,775	\$39,485	\$(138)	\$(185)	\$191,939	
Exercise of stock options	11,668		48				48	
Issuance of stock under Employee Stock Purchase Plan	93,297	1	669				670	
Amortization of stock based compensation					51		51	
Net (loss)				(5,737)			(5,737)	\$(5,737)
Foreign currency translation						(128)	(128)	(128)
Comprehensive (loss)								\$(5,865)
Balance at September 30, 2002	26,013,338	\$ 3	\$153,492	\$33,748	\$(87)	\$(313)	\$186,843	

See accompanying notes to condensed consolidated financial statements

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 — Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2002, the condensed consolidated statements of operations for the three and six months ended September 30, 2001 and 2002, the condensed consolidated statements of cash flows for the six months ended September 30, 2001 and 2002, and the condensed consolidated statement of stockholders' equity for the six months ended September 30, 2002 have been prepared by the management of ViaSat, Inc., and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended March 31, 2002 included in our 2002 Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year.

Our consolidated financial statements include the assets, liabilities and results of operations of TrellisWare Technologies, Inc., a majority owned subsidiary of ViaSat. All significant intercompany amounts have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information, and actual results could differ from those estimates. Significant estimates made by management include revenue recognition, capitalized software, allowance for doubtful accounts, warranty reserves and valuation of goodwill and other intangible assets.

In July 2002, the FASB issued SFAS No. 146 — *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 provides guidance on the recognition and measurement of liabilities associated with exit and disposal activities. Under SFAS No. 146, liabilities for costs associated with exit or disposal activities should be recognized when the liabilities are incurred and measured at fair value. This statement is effective prospectively for exit or disposal activities initiated after December 31, 2002. The adoption is not expected to have a material effect on the consolidated financial statements.

Note 2 — Revenue Recognition

The majority of our revenues are derived from services performed under a variety of contracts including cost-plus-fixed fee, fixed-price, and time and materials type contracts. Generally, revenues are recognized as services are performed using the percentage of completion method, measured primarily by costs incurred to date compared with total estimated costs at completion or based on the number of units delivered. We provide for anticipated losses on contracts by a charge to income during the period in which they are first identified.

Contract costs with the U. S. Government and its prime contractors, including indirect costs, are subject to audit and negotiations with Government representatives. These audits have been completed and agreed upon through fiscal year 1998. Contract revenues and accounts receivable are stated at amounts which are expected to be realized upon final settlement.

Note 3 — Earnings Per Share

Common stock equivalents of 951,343 shares for the three months ended September 30, 2001 and 935,122 for the six months ended September 30, 2001 respectively, were used to calculate diluted earnings per share. Potentially dilutive securities excluded from the calculation were 2,083,022 and 4,321,525 shares for the three months ended September 30, 2001 and 2002, respectively. Potentially dilutive securities excluded from the calculation were 2,006,749 and 4,327,631 shares for the six months ended September 30, 2001 and 2002, respectively. Common stock equivalents are primarily comprised of options granted under our stock option plan.

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 4 — Composition of Certain Balance Sheet Captions (in thousands)

	March 31, 2002	September 30, 2002
		(Unaudited)
Cash and cash equivalents:		
Cash	\$ 4,494	\$ 7,943
Investments in debt securities	1,970	7
	\$ 6,464	\$ 7,950
Accounts receivable, net:		
Billed	\$ 39,081	\$ 39,838
Unbilled	41,576	35,145
Allowance for doubtful accounts	(487)	(500)
	\$ 80,170	\$ 74,483
Inventory:		
Raw materials	\$ 13,268	\$ 20,839
Work in process	9,906	5,941
Finished goods	6,942	4,468
	\$ 30,116	\$ 31,248
Other current assets:		
Income taxes receivable	\$ 2,792	\$ 7,735
Prepaid expenses	2,762	2,215
Other	1,789	1,292
	\$ 7,343	\$ 11,242
Other intangible assets:		
Technology	\$ 26,770	\$ 26,770
Contracts and relationships	9,736	9,736
Non-compete agreement	7,950	7,950
Other intangibles	6,875	6,875
	51,331	51,331
Less accumulated amortization	(7,409)	(11,634)
	\$ 43,922	\$ 39,697
Property and equipment:		
Machinery and equipment	\$ 30,131	\$ 30,075
Computer equipment and software	15,783	16,898
Furniture and fixtures	2,030	2,144
Construction in progress	5,161	10,491
	53,105	59,608
Less accumulated depreciation	(21,988)	(27,181)
	\$ 31,117	\$ 32,427
Other assets:		
Capitalized software costs, net	\$ 12,313	\$ 15,342
Prepaid satellite services	2,500	2,500
Deferred income taxes	1,172	1,319
Other	964	811
	\$ 16,949	\$ 19,972
Accrued liabilities:		
Current portion of warranty reserve	\$ 494	\$ 903
Accrued vacation	3,284	2,772

Accrued bonus	1,952	642
Accrued 401(k) matching contribution	2,288	—
Collections in excess of revenues	6,090	7,103
Other	3,688	2,583
	<u> </u>	<u> </u>
	\$ 17,796	\$ 14,003
	<u> </u>	<u> </u>

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 5 — Accounting for Goodwill and Intangible Assets

The FASB issued SFAS No. 141 *Business Combinations* and SFAS No. 142 *Goodwill and Other Intangible Assets* in July 2001. SFAS No. 141 requires that all business combinations be accounted for using the purchase method. SFAS No. 141 also specifies criteria for recognizing and reporting intangible assets apart from goodwill; however, acquired workforce must be recognized and reported in goodwill. SFAS No. 142 requires that intangible assets with an indefinite life should not be amortized until their life is determined to be finite, and all other intangible assets must be amortized over their useful life. SFAS No. 142 also requires that goodwill not be amortized but instead tested for impairment in accordance with the provisions of SFAS No. 142 at least annually and more frequently upon the occurrence of certain events. In addition, all goodwill must be assigned to reporting units for purposes of impairment testing.

We adopted certain of the provisions of these pronouncements effective July 1, 2001, as required for goodwill and intangible assets acquired in purchase business combinations consummated after June 30, 2001. We adopted the remaining provisions of SFAS No. 141 and SFAS No. 142 effective April 1, 2002. As a result of adopting SFAS No. 142 on April 1, 2002, acquired workforce with a net book value of \$3.4 million was reclassified to goodwill.

We have completed the first step of the two-step transitional impairment test which is to assess whether goodwill within our reporting units was impaired at the date of adoption of this pronouncement. The first step, which is our identification of any impairment of goodwill as of April 1, 2002, resulted in no impairment of goodwill for the adoption of SFAS No. 142. Since step two is required only if step one reveals an impairment, we are not required to complete step two and the transitional impairment testing is complete.

A reconciliation of results of operations adjusted to exclude amortization expense net of tax related to goodwill (including Acquired workforce) assuming adoption of SFAS 142 on April 1, 2001 is as follows (in thousands, except share data):

	Three months ended September 30, (unaudited)		Six months ended September 30, (unaudited)	
	2001	2002	2001	2002
Reported net income (loss)	\$ 447	\$ (4,155)	\$ 3,151	\$ (5,737)
Goodwill amortization	262	—	523	—
Adjusted net income (loss)	<u>\$ 709</u>	<u>\$ (4,155)</u>	<u>\$ 3,674</u>	<u>\$ (5,737)</u>
Basic net income (loss) per share				
Reported net income (loss)	\$.02	\$ (.16)	\$.14	\$ (.22)
Goodwill amortization	.01	—	.02	—
Adjusted net income (loss)	<u>\$.03</u>	<u>\$ (.16)</u>	<u>\$.16</u>	<u>\$ (.22)</u>
Diluted net income (loss) per share				
Reported net income (loss)	\$.02	\$ (.16)	\$.14	\$ (.22)
Goodwill amortization	.01	—	.02	—
Adjusted net income (loss)	<u>\$.03</u>	<u>\$ (.16)</u>	<u>\$.16</u>	<u>\$ (.22)</u>
Shares used in per share calculation				
Basic	<u>22,475,866</u>	<u>26,008,006</u>	<u>22,253,529</u>	<u>25,959,822</u>
Diluted	<u>23,427,209</u>	<u>26,008,006</u>	<u>23,188,651</u>	<u>25,959,822</u>

The intangible assets are amortized using the straight-line method over their estimated useful lives of three to nine years. The technology intangible asset has several components with estimated useful lives of six to nine years, contracts and relationships intangible asset has several components with estimated useful lives of three to nine years and non-compete agreements have useful lives of three to five years.

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The current and expected amortization expense for each of the following periods is as follows (in thousands):

	Amortization
For the six months ended September 30, 2002	\$4,223
Expected for the remainder of fiscal year 2003	4,227
Expected for fiscal year 2004	7,842
Expected for fiscal year 2005	6,642
Expected for fiscal year 2006	6,048
Expected for fiscal year 2007	5,376

Note 6 — Notes Payable and Line of Credit

On June 21, 2001 we entered into a Revolving/Term Loan Agreement (the "Loan Agreement") of \$25 million with certain banks. On October 29, 2002, we executed Amendment No. 3 to the Loan Agreement with Union Bank of California and US Bank National Association.

Under Amendment No. 3 to the Loan Agreement, the borrowing commitment was reduced from \$25 million to \$20 million, the maturity date was changed from April 30, 2003 to December 27, 2002, and certain covenants were modified.

On November 14, 2002, we executed Amendment No. 4 to the Loan Agreement. Under Amendment No. 4 of the Loan Agreement, Comerica Bank - California replaces US Bank National Association, the maturity date of the Loan Agreement is extended to June 30, 2003 and certain covenants were modified. ViaSat has the option to borrow at the bank's prime rate or at LIBOR plus, in each case, an applicable margin. The Loan Agreement also contains financial covenants that set maximum debt to EBITDA (earnings before interest, taxes, depreciation and amortization) limits, minimum quarterly EBITDA limits, a minimum quick ratio limit and a minimum tangible net worth limit. The borrowing commitment is also limited by ViaSat's level of accounts receivable. The Loan Agreement is collateralized by cash, accounts receivable and inventory of ViaSat.

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 7 — Contingencies

On December 5, 2001 Astrolink International LLC terminated for convenience two of our ground segment contracts. At the time of termination, one of Astrolink's major investors had announced that it would not invest further in the Astrolink program. These two contracts relate to the development and production of subscriber terminals and service provider gateways for the Astrolink satellite system. The terms of the contracts require Astrolink to pay us an aggregate termination claim of approximately \$34.1 million. This contractual termination amount, to the extent collectible, exceeds our assets at risk but has not been recorded in the accompanying consolidated balance sheet. Astrolink contracts accounted for approximately 10% of our revenues in fiscal year 2002. We have not recorded any revenue related to the Astrolink contracts in fiscal year 2003.

The assets at risk to Astrolink included in our balance sheet as of September 30, 2002 were accounts receivable due from Astrolink in the amount of approximately \$6.3 million, inventory specific to Astrolink of \$394,000 and \$2.5 million we had prepaid for airtime on Astrolink satellites. The \$6.3 million accounts receivable is included in Astrolink's \$34.1 million termination liability to us noted above.

We are currently a party to various government and commercial contracts which require us to meet performance covenants and project milestones. Under the terms of these contracts, failure by us to meet such performance covenants and milestones permit the other party to terminate the contract and, under certain circumstances, recover liquidated damages or other penalties. We are currently not in compliance (or in the past were not in compliance) with the performance or milestone requirements of certain of these contracts. Historically, our customers have not elected to terminate such contracts or seek liquidated damages from us and we do not believe that our existing customers will do so; therefore, we have not accrued for any potential liquidated damages or penalties.

Note 8 — Immeon Networks, L.L.C.

In January 2001 ViaSat and Loral Skynet formed a joint venture named Immeon Networks, L.L.C. (Immeon). We account for our investment under the equity method because we have significant influence, but not control, of the operations of Immeon. During periods of operating losses of Immeon, those losses are allocated to ViaSat and Loral Skynet according to each venture's contribution to Immeon. If Immeon attains profitability in the future, contributions previously provided by the joint venturers will be reimbursed based on the allocation of profits. Once all contributions have been fully reimbursed to the respective venturer, each venturer is entitled to 50% of the net profits of Immeon, subject to certain adjustments. To date, we have provided services to Immeon. As such, in accordance with the terms of the joint venture agreement, the services are considered contributions to Immeon for the purposes of determining the allocation of the net loss of Immeon to the venturers. Our share of the operating losses of Immeon for the three months ended September 30, 2001 and 2002 was \$716,000 and \$630,000, respectively and \$1.4 million and \$1.2 million for the six months ended September 30, 2001 and 2002, respectively. Our share of the net losses of Immeon is limited to the extent of our investment in (including contributions in the form of services), advances to and financial guarantees that create additional basis in Immeon. Our share of losses and advances to Immeon has reduced our investment, including contributions in the form of services, to zero. We are obligated to provide services to Immeon through December 31, 2002; provided however, that we would maintain an obligation to provide service to Immeon customers through the end of its customer contracts in 2004.

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 9 — Income Taxes

Our effective income tax rate changed from a provision of 32.3% for the six months ended September 30, 2001 to a benefit of 49.7% for the six months ended September 30, 2002. In calculating the tax benefit for the three months and six months ended September 30, 2002 we applied a 40% tax rate to income before taxes and combined the result with the research and development tax credit estimated for the period. Our estimated annual effective rate for the fiscal year is influenced by the amount of research and development tax credit relative to income before taxes. Since the research and development tax credit is not variable to income, fluctuations in estimated annual income before taxes can cause disproportionate changes in the tax provision. In calculating the tax provision for the three and six months ended September 30, 2001 we applied the estimated annual effective rate of 32% to income before taxes.

Note 10 — Segment Information

We are organized primarily on the basis of products with commercial and government (defense) communication applications. The following table summarizes revenues and operating profits by operating segment for the three months and six months ended September 30, 2001 and 2002. Certain corporate general and administrative costs, amortization of intangible assets and charges of acquired in-process research and development are not allocated to either segment and accordingly, are shown as reconciling items from segment operating profit and consolidated operating profit. Assets are not tracked by operating segment. Consequently, it is not practical to show assets by operating segments. Depreciation expense is allocated to operating segments as an overhead charge based on direct labor dollars within the operating segments (in thousands).

	Three months ended September 30, (unaudited)		Six months ended September 30, (unaudited)	
	2001	2002	2001	2002
Revenues				
Commercial	\$33,629	\$22,988	\$67,451	\$ 45,572
Government	15,895	16,509	30,907	36,788
Total Revenues	49,524	39,497	98,358	82,360
Operating Profits				
Commercial	3,163	(8,847)	6,922	(13,987)
Government	2,368	3,895	4,324	7,831
Segment operating profit before corporate	5,531	(4,952)	11,246	(6,156)
Corporate	(186)	158	(284)	425
Amortization of intangibles	(1,553)	(2,112)	(2,587)	(4,223)
Acquired in-process research and development	(2,500)	—	(2,500)	—
Total operating profits	\$ 1,292	\$ (6,906)	\$ 5,875	\$ (9,954)

VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Revenue information by geographic area for the three and six month periods ended September 30, 2001 and 2002 is as follows:

	Three months ended September 30, (unaudited)		Six months ended September 30, (unaudited)	
	2001	2002	2001	2002
North America	\$38,394	\$29,530	\$77,607	\$62,961
Europe	5,984	5,650	9,592	10,577
Asia Pacific	4,384	3,657	10,151	7,699
Latin America	762	660	1,008	1,123
	<u>\$49,524</u>	<u>\$39,497</u>	<u>\$98,358</u>	<u>\$82,360</u>

We distinguish revenues from external customers by geographic areas based on customer location.

The net book value of long-lived assets located outside North America was \$37,000 at September 30, 2001 and 2002.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in ViaSat's Annual Report on Form 10-K for the year ended March 31, 2002, filed with the Securities and Exchange Commission.

Except for the historical information contained herein, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled "Factors That May Affect Future Performance" and elsewhere in this Quarterly Report.

General

ViaSat was incorporated in 1986 and completed its initial public offering in 1996. We are a leading provider of advanced broadband digital satellite communications and other wireless networking and signal processing equipment and services to the defense and commercial markets. Based on our extensive experience in complex defense communications systems, we have developed the capability to design and implement innovative communications solutions that enhance bandwidth utilization by applying our sophisticated networking and digital signal processing techniques. Our goal is to leverage our advanced technology and capabilities to capture a significant share of the global satellite communications services and equipment segment of the broadband communications market for both government and commercial customers.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses ViaSat's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The policies discussed below are considered by management to be critical to an understanding of our financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events rarely develop exactly as forecast, and even the best estimates routinely require adjustment.

Revenue recognition

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. Generally, revenues are recognized as services are performed using the percentage of completion method, measured primarily by costs incurred to date compared with total estimated costs at completion or based on the number of units delivered. Historically, we have been able to make reliable estimates and have therefore been able to reasonably determine our percent complete. However, many of our contracts involve the development of new technology and, as a result, the development of estimates underlying our percent complete is inherently subject to greater uncertainty. Even with our experience in estimating contract costs it is possible that our actual results could ultimately differ from our estimates, or that estimates could change as we make progress on a contract. Either of these potential outcomes would result in adjustments to the revenues and profits recorded on a contract. From time to time we have recorded such changes in estimate. We encounter multiple awards to a single contract that may occur simultaneously or over time. The separate awards are treated as part of the same contract when recognizing

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revenue on the percentage of completion method when the awards: 1) are negotiated as a package in the same economic environment with an overall profit margin objective, 2) constitute in essence an agreement to do a single project, 3) require closely interrelated activities with substantial common costs that cannot be separately identified with, or reasonably allocated to, the elements, phases or units of output, 4) are performed concurrently or in a continuous sequence under the same project management at the same location or at different location in the same general vicinity, and 5) constitute in substance an agreement with a single customer.

It is also possible that adjusted estimates could indicate that we will incur a loss on a contract. We provide for anticipated losses on contracts by a charge to income during the period in which they are first identified.

Capitalized Software Development Costs

Software development costs incurred from the time technological feasibility is reached until the product is available for general release to customers are capitalized and reported at the lower of unamortized cost or net realizable value. Once the product is available for general release, the software development costs are amortized based on the ratio of current to future revenue for each product with an annual minimum equal to straight-line amortization over the remaining estimated economic life of the product. The determination of net realizable value involves judgement and estimates of future revenues to be derived from a product, as well as estimates of future costs of manufacturing that product. We use our experience in the marketplace in making judgements in estimating net realizable value, but our estimates may differ from the actual outcome. We periodically assess the assumptions underlying our estimates and, if necessary, we would adjust the carrying amount of capitalized software development costs downward to our new estimate of net realizable value.

At March 31, 2002, \$12.6 million of software development costs had been incurred and as of September 30, 2002 a total of \$16.2 million of software development costs had been incurred. Amortization expense related to software development costs was \$13,000 and \$265,000 for the three months ended September 30, 2001 and 2002, respectively, and \$27,000 and \$530,000 for the six months ended September 30, 2001 and 2002, respectively. These software development costs are part of other assets on the balance sheet and the related amortization expense is recorded as a charge to cost of revenues on the income statement.

Allowance for doubtful accounts

We make estimates of the collectibility of our accounts receivable based on historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Historically, our bad debts have been minimal; a contributing factor to this is that a large portion of our sales have been to the U.S. Government. Our accounts receivable balance was \$74.5 million, net of allowance for doubtful accounts of \$500,000 as of September 30, 2002.

Allowance for warranty reserves

We provide limited warranties on certain of our products for periods of up to five years. We record a liability for our warranty obligations when products are shipped based upon an estimate of expected warranty costs. Amounts expected to be incurred within twelve months are classified as a current liability. For mature products the warranty costs estimates are based on historical experience with the particular product. For newer products that do not have a history of warranty costs, we base our estimates on our experience with the technology involved and the types of failure that may occur. It is possible that our underlying assumptions will not reflect the actual experience and in that case, future adjustments will be made to the recorded warranty obligation.

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Goodwill and other intangible assets

The acquisition of the Satellite Networks Business in fiscal year 2001 and Comsat Laboratories and U.S. Monolithics fiscal year 2002 were accounted for by the purchase method of accounting. An independent appraiser was used to assist management in identifying the intangible assets acquired and establishing their fair value and estimated lives of the goodwill and other intangible assets. The criteria used for these appraisals include management's estimates of cash flows to be generated by these intangible assets in future periods. Useful lives and related amortization expense are based on our estimates of the periods that the assets will generate revenues or otherwise be used by us. Factors that would influence the likelihood of a material change in our reported results include significant changes in our estimates of future cash flow, significant changes in our strategic business objectives, or significant negative changes in industry or economic trends.

As required in Statement of Financial Accounting Standards ("SFAS") No. 142 and 144, we will perform periodic reviews for impairment of goodwill and other intangible assets. There are many management assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but reasonable, assumptions could produce significantly different results. Therefore, the timing and recognition of impairment losses by us in the future, if any, will continue to be dependent upon our estimates and assumptions. We have completed the first step of the two-step transitional impairment test required under SFAS No. 142 which is to assess whether goodwill within our reporting units was impaired at the date of adoption of this pronouncement. The first step, which is our identification of any impairment of goodwill as of April 1, 2002 resulted in no impairment of goodwill for the adoption of SFAS No. 142. Since step two is required if step one reveals an impairment, we were not required to complete step two and the transitional impairment testing is complete.

Results of Operations

The following table sets forth, as a percentage of total revenues, certain income data for the periods indicated.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2002	2001	2002
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	68.6	80.8	69.1	74.4
Gross profit	31.4	19.2	30.9	25.6
Operating expenses:				
Selling, general and administrative	16.9	22.5	16.6	21.4
Independent research and development	3.7	8.8	3.2	11.2
Acquired in-process research and development	5.0	—	2.5	—
Amortization of intangible assets	2.3	5.4	1.7	5.1
Amortization of goodwill	0.9	—	0.9	—
Income from operations	2.6	(17.5)	6.0	(12.1)
Income before income taxes	1.3	(19.5)	4.7	(13.9)
Net income	0.9	(10.5)	3.2	(7.0)

Three Months Ended September 30, 2001 vs. Three Months Ended September 30, 2002

Revenues. Revenues decreased 20.2% from \$49.5 million for the three months ended September 30, 2001 to \$39.5 million for the three months ended September 30, 2002. This decrease was primarily due to a decrease in our broadband systems business area resulting from contract terminations and suspensions occurring in the third and fourth quarters of our prior fiscal year.

Gross Profit. Gross profit decreased 51.0% from \$15.5 million (31.4% of revenues) for the three months ended September 30, 2001 to \$7.6 million (19.2% of revenues) for the three months ended September 30, 2002. This decrease was primarily due lower sales volumes in the broadband systems business area, which contributed less gross margin, and a cost over-run on a broadband program while it transitioned from development into the initial phases of production. In addition, we experienced lower margins in the commercial VSAT products business area from market pricing pressure, changes in product sales mix and cost over-runs on certain projects. These gross margin reductions were partially offset by an increase in gross profit from our government systems business.

Selling, General and Administrative Expenses. Selling, general and administrative (“SG&A”) expenses increased 6.0% from \$8.4 million (16.9% of revenues) for the three months ended September 30, 2001 to \$8.9 million (22.5% of revenues) for the three months ended September 30, 2002. The increased SG&A costs primarily relate to the increased personnel and facilities associated with our U.S. Monolithics operation acquired in the fourth quarter of last fiscal year. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Certain of these expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

Independent Research and Development. Independent research and development (“IR&D”) expenses increased 94.4% from \$1.8 million (3.7% of revenues) for the three months ended September 30, 2001, to \$3.5 million (8.8% of revenues) for the three months ended September 30, 2002. This increase was primarily due to IR&D spending for U.S. Monolithics whose current products are primarily in the development phase, and for increased IR&D spending in government systems. IR&D spending is expected to be reduced as percentage of sales in the next two quarters of fiscal 2003.

Acquired In-Process Research and Development. The acquisition of Comsat Laboratories was accounted for by the purchase method of accounting. In connection with this acquisition, a charge of \$2.5 million for purchased in-process research and development (“IPR&D”) was included in our results for the three months ended September 30, 2001.

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Amortization of Goodwill and Intangible Assets. The acquisition of the Satellite Networks Business in fiscal year 2001 and Comsat Laboratories in the second quarter of fiscal year 2002 and U.S. Monolithics in the fourth quarter of fiscal year 2002 were accounted for by the purchase method of accounting. The dates of acquisition of Comsat Laboratories and U.S. Monolithics were both after June 30, 2001 and were accounted for under SFAS 141. Therefore, the goodwill of those two acquisitions has not been subject to amortization. As a result of adopting SFAS 142 for our fiscal year ending March 31, 2003, we no longer amortize the intangibles assets "Acquired workforce" of \$5.5 million or "Goodwill" of \$4.5 million acquired in the Satellite Networks Business acquisition. "Acquired workforce" did not meet the separability requirements of SFAS 141 and has been subsumed into goodwill beginning April 1, 2002. The intangible assets are being amortized over useful lives ranging from two to ten years. Below is the allocation of the amortization expense for the three month periods ended September 30, 2001 and 2002 (in thousands).

	Amortization for the three months ended September 30,	
	2001	2002
Existing technology	\$ 430	\$ 950
Contracts and relationships	275	276
Non-compete agreements	297	575
Other amortizable assets	115	311
Acquired workforce	274	—
Goodwill	162	—
Totals	\$1,553	\$2,112

The increase in amortization expense was due to the increase in intangible assets related to recent acquisitions.

Interest Expense. Interest expense increased from \$92,000 for the three months ended September 30, 2001 to \$184,000 for the three months ended September 30, 2002. Interest expense relates to loans for the purchase of capital equipment, which are generally three year variable rate term loans, and to short-term borrowings under our Loan Agreement to cover working capital requirements. There were no outstanding equipment loans and \$5.5 million in outstanding borrowings under our line of credit as of September 30, 2001. At September 30, 2002 there were no outstanding equipment loans and \$18.4 million in outstanding borrowings under our line of credit. Increases in interest expense from higher debt levels were partially offset by lower interest rates related to these borrowings.

Interest Income. Interest income decreased from \$188,000 for the three months ended September 30, 2001 to \$16,000 for the three months ended September 30, 2002. This decrease resulted from a decrease in invested balances and lower rates of earning. Interest income relates largely to interest earned on short-term deposits of cash.

Provision for Income Taxes. Our effective income tax rate changed from a provision of 32.2% for the three months ended September 30, 2001 to a benefit of 46.2% for the three months ended September 30, 2002. In calculating the tax benefit for the three months ended September 30, 2002 we applied a 40% tax rate to income before taxes and combined the result with the research and development tax credit estimated for the period. Our estimated annual effective rate for the fiscal year is influenced by the amount of research and development tax credit relative to income before taxes. Since the research and development tax credit is not variable to income, fluctuations in estimated annual income before taxes can cause disproportionate changes in the tax provision. In calculating the tax provision for the three months ended September 30, 2001 we applied the estimated annual effective rate of 32.2% to income before taxes.

Six Months Ended September 30, 2001 vs. Six Months Ended September 30, 2002

Revenues. Revenues decreased 16.3% from \$98.4 million for the six months ended September 30, 2001 to \$82.4 million for the six months ended September 30, 2002. This decrease was primarily due to a decrease in our broadband systems business area and satellite ground systems business area resulting from contract terminations and suspensions occurring in the third and fourth quarters of our prior fiscal year partially offset an increase in revenue from government systems business.

Gross Profit. Gross profit decreased 30.6% from \$30.4 million (30.9% of revenues) for the six months ended September 30, 2001 to \$21.1 million (25.6% of revenues) for the six months ended September 30, 2002. This decrease was primarily due lower sales volumes in the satellite ground systems and broadband systems business areas, which contributed less gross margin, and a cost over-run on a broadband program while it transitioned from development into the initial phases of production. In addition, we experienced lower margins in the commercial VSAT products business area from market pricing pressure, changes in product sales mix and cost over-runs on certain projects. These gross margin reductions were partially offset by an increase in gross profit from our government systems business.

Selling, General and Administrative Expenses. SG&A expenses increased 7.3% from \$16.4 million (16.6% of revenues) for the six months ended September 30, 2001 to \$17.6 million (21.4% of revenues) for the six months ended September 30, 2002. The increased SG&A costs primarily relate to the increased personnel and facilities associated with our U.S. Monolithics (USM) operation acquired in the fourth quarter of last fiscal year.

Independent Research and Development. IR&D expenses increased 196.8% from \$3.1 million (3.2% of revenues) for the six months ended September 30, 2001 to \$9.2 million (11.2% of revenues) for the six months ended September 30, 2002. IR&D spending has increased across all of our business areas and is attributable to lower customer funded research and development and investments in the development of new technologies that enable our company to maintain its competitiveness.

Acquired In-Process Research and Development. Purchased in-process research and development charges resulted from the acquisition of Comsat Laboratories and accounted for \$2.5 million (2.5% of revenues) in the six months ended September 30, 2001.

Amortization of Goodwill and Intangible Assets. The acquisition of the Satellite Networks Business in fiscal year 2001 and Comsat Laboratories and U.S. Monolithics in fiscal year 2002 were accounted for by the purchase method of accounting. The dates of acquisition of Comsat Laboratories and U.S. Monolithics were both after June 30, 2001 and were accounted for under SFAS 141. Therefore, the goodwill of those two acquisitions has not been subject to amortization. As a result of adopting SFAS 142 for our fiscal year ending March 31, 2003, we no longer amortize the intangibles assets "Acquired workforce" of \$5.5 million or "Goodwill" of \$4.5 million acquired in the Satellite Networks Business acquisition. "Acquired workforce" did not meet the separability requirements of SFAS 141 and has been subsumed into goodwill beginning April 1, 2002. The intangible assets are being amortized over useful lives ranging from two to ten years. Below is the allocation of the amortization expense for the six month periods ended September 30, 2001 and 2002 (in thousands).

	Amortization for the six months ended September 30,	
	2001	2002
Existing technology	\$ 753	\$1,900
Contracts and relationships	550	551
Non-compete agreements	297	1,150
Other amortizable assets	115	622
Acquired workforce	549	—
Goodwill	323	—
Totals	\$2,587	\$4,223

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Interest Expense. Interest expense increased from \$97,000 for the six months ended September 30, 2001 to \$309,000 for the six months ended September 30, 2002. Interest expense relates to loans for the purchase of capital equipment, which are generally three year variable-rate term loans, and to short-term borrowings under our line of credit to cover working capital requirements. Increases in interest expense from higher debt levels were partially offset by lower interest rates related to these borrowings. At September 30, 2001 there were no outstanding equipment loans and \$5.5 million in outstanding borrowings under our line of credit.

Interest Income. Interest income decreased from \$406,000 for the six months ended September 30, 2001 to \$30,000 for the six months ended September 30, 2002. This decrease resulted from a decrease in invested balances and lower rates of earning. Interest income relates largely to interest earned on short-term deposits of cash.

Provision for Income Taxes. Our effective income tax rate changed from a provision of 32.3% for the six months ended September 30, 2001 to a benefit of 49.7% for the six months ended September 30, 2002. In calculating the tax benefit for the six months ended September 30, 2002 we applied a 40% tax rate to income before taxes and combined the result with the research and development tax credit estimated for the period. Our estimated annual effective rate for the fiscal year is influenced by the amount of research and development tax credit relative to income before taxes. Since the research and development tax credit is not variable to income, fluctuations in estimated annual income before taxes can cause disproportionate changes in the tax provision. In calculating the tax provision for the six months ended September 30, 2001 we applied the estimated annual effective rate of 32.3% to income before taxes.

Backlog

At September 30, 2002 we had firm backlog of \$199.7 million of which \$167.3 million was funded. The firm backlog of \$199.7 million does not include contract options of \$47.9 million. Of the \$199.7 million in firm backlog, approximately \$66.2 million is expected to be delivered in the fiscal year ending March 31, 2003, and the balance is expected to be delivered in the fiscal year ending March 31, 2004 and thereafter. At March 31, 2002 we had firm backlog of \$139.4 million, of which \$124.2 million was funded, not including options of \$48.8 million. We include in our backlog only those orders for which we have accepted purchase orders.

Backlog is not necessarily indicative of future sales. A majority of our U.S. government contracts can be terminated at the convenience of the customer since orders are often made substantially in advance of delivery, and our U.S. government contracts typically provide that orders may be terminated with limited or no penalties. Further, most of our commercial contracts do not contain specific termination liability amounts, and therefore, upon termination by a commercial customer we would only be entitled to damages provided by law. These damages would likely be substantially less than the full value of the contract. In addition, purchase orders may set forth product specifications that would require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related purchase order.

The backlog amounts as presented are comprised of funded and unfunded components. Funded backlog represents the sum of contract amounts for which funds have been specifically obligated by customers to contracts. Unfunded backlog represents future amounts that customers may obligate over the specified contract performance periods. Our customers allocate funds for expenditures on long-term contracts on a periodic basis. Our ability to realize revenues from contracts in backlog is dependent upon adequate funding for such contracts. Although funding of our contracts is not within our control, our experience indicates that actual contract fundings have ultimately been approximately equal to the aggregate amounts of the contracts.

Recent Accounting Pronouncement

In July 2002, the FASB issued SFAS No. 146 — *Accounting for Costs Associated with Exit or Disposal Activities* was issued. SFAS No. 146 provides guidance on the recognition and measurement of liabilities associated with exit and disposal activities. Under SFAS No. 146, liabilities for costs associated with exit or disposal activities should be recognized when the liabilities are incurred and measured at fair value. This statement is effective prospectively for exit or disposal activities initiated after December 31, 2002. The adoption is not expected to have a material effect on the consolidated financial statements.

Liquidity and Capital Resources

We have financed our operations to date primarily with cash flows from operations, bank line of credit financing, equity financing and loans for the purchase of capital equipment. Cash provided by operating activities for the six months ended September 30, 2002 and September 31, 2001 was \$3.5 million and \$15.8 million, respectively. We used cash to fund a net loss of \$5.7 million for the six months ended September 30, 2002. Increase in inventory and other assets along with a decrease in accrued liabilities caused a reduction in cash which was partially offset by a decrease in accounts receivable and an increase in accounts payable.

Cash used in investing activities for the six months ended September 30, 2001 was \$26.7 million and cash used in investing activities for the six months ended September 30, 2002 was \$11.2 million. We acquired \$9.4 million in equipment and invested \$4.3 million in capitalized software in the six months ended September 30, 2001 compared to \$6.4 million of equipment and \$3.6 million of capitalized software during the six months ended September 30, 2002.

Cash provided by financing activities for the six months ended September 30, 2001 was \$6.0 million and cash provided by financing activities for the six months ended September 30, 2002 was \$9.2 million. This increase was primarily the result of \$8.5 million in loan proceeds from our Loan Agreement in the six months ended September 30, 2002.

At September 30, 2002, we had \$8.1 million in cash, cash equivalents and short-term investments and \$77.8 million in working capital. We had \$18.4 million in outstanding borrowings under our Loan Agreement at September 30, 2002.

On June 21, 2001 we entered into a Revolving/Term Loan Agreement (the "Loan Agreement") of \$25 million with certain banks. On October 29, 2002, we executed Amendment No. 3 to the Loan Agreement with Union Bank of California and US Bank National Association.

Under Amendment No. 3 to the Loan Agreement, the borrowing commitment was reduced from \$25 million to \$20 million, the maturity date was changed from April 30, 2003 to December 27, 2002, and certain covenants were modified.

On November 14, 2002, we executed Amendment No. 4 to the Loan Agreement. Under Amendment No. 4 of the Loan Agreement, Comerica Bank - California replaces US Bank National Association, the maturity date of the Loan Agreement is extended to June 30, 2003 and certain covenants were modified. ViaSat has the option to borrow at the bank's prime rate or at LIBOR plus, in each case, an applicable margin. The Loan Agreement also contains financial covenants that set maximum debt to EBITDA (earnings before interest, taxes, depreciation and amortization) limits, minimum quarterly EBITDA limits, a minimum quick ratio limit and a minimum tangible net worth limit. The borrowing commitment is also limited by ViaSat's level of accounts receivable. The Loan Agreement is collateralized by cash, accounts receivable and inventory of ViaSat.

As of September 30, 2002 the total outstanding borrowings under the revolving/term facility were \$18.4 million and amounts outstanding under standby letters of credit were \$826,000. With the limitation of borrowing based on levels of accounts receivable and inventory, borrowing availability under the Loan Agreement was \$774,000 at September 30, 2002.

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On December 5, 2001 Astrolink International LLC terminated for convenience two of our ground segment contracts. At the time of termination, one of Astrolink's major investors had announced that it would not invest further in the Astrolink program. These two contracts relate to the development and production of subscriber terminals and service provider gateways for the Astrolink satellite system. The terms of the contracts require Astrolink to pay us an aggregate termination claim of approximately \$34.1 million. This contractual termination amount, to the extent collectible, exceeds our assets at risk but has not been recorded in the accompanying consolidated balance sheet. Astrolink contracts accounted for approximately 10% of our revenues in fiscal year 2002. We have not recorded any revenue related to the Astrolink contracts in fiscal year 2003.

The assets at risk to Astrolink included in our balance sheet as of September 30, 2002 were accounts receivable due from Astrolink in the amount of approximately \$6.3 million, inventory specific to Astrolink of \$394,000 and \$2.5 million we had prepaid for airtime on Astrolink satellites. The \$6.3 million accounts receivable is included in Astrolink's \$34.1 million termination liability to us noted above.

ViaSat is continuing discussions with Astrolink and other interested parties regarding potential alternatives for the Astrolink project. We cannot, however, make assurances that the assets or the contractual termination amounts will be fully recovered. If Astrolink is unable to successfully restructure its operations, or obtain additional funding, it would substantially limit our ability to recover the assets at risk and could cause ViaSat to incur losses which could harm our business; however, we have not made any adjustments to the recorded amount as it is not possible at this time to reasonably estimate or determine what loss, if any, will be incurred.

In September 2001, we filed a universal shelf registration statement with the Securities and Exchange Commission for the future sale of up to \$75 million of debt securities, common stock, preferred stock, depositary shares, and warrants. The securities may be offered from time to time, separately or together, directly by us or through underwriters at amounts, prices, interest rates and other terms to be determined at the time of the offering. We currently intend to use the net proceeds from the sale of the securities under the shelf registration statement for general corporate purposes, including acquisitions, capital expenditures, working capital and the repayment or refinancing of our debt. In January 2002, we issued 2,000,000 shares of our common stock under this registration statement for proceeds, net of offering costs, of approximately \$27.1 million. We used the net proceeds from the sale of the common stock for general corporate purposes, which included funding research, increasing our working capital, reducing indebtedness and capital expenditures.

Our future capital requirements will depend upon many factors, including the expansion of our research and development and marketing efforts and the nature and timing of orders. Additionally, we will continue to evaluate possible acquisitions of, or investments in complementary businesses, products and technologies which may require the use of cash. We believe that our current cash balances and net cash expected to be provided by operating activities will be sufficient to meet our operating requirements for at least the next 12 months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position. The sale of additional securities could result in additional dilution of our stockholders. We invest our cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

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The following table sets forth a summary of our obligations under operating leases, capital leases, notes payable and irrevocable letters of credit for the periods indicated (in thousands):

	As of	For the balance	For the fiscal years ending		
	September 30,	of fiscal year	March 31,		
	2002	ending	2004-2006	2007-2008	After 2008
	Total	March 31, 2003			
Operating leases	\$21,041	\$ 3,094	\$8,522	\$5,141	\$4,284
Capital leases	349	338	11	—	—
Lines of credit	18,350	18,350	—	—	—
Standby letters of credit	826	630	196	—	—
Total	\$40,566	\$22,412	\$8,729	\$5,141	\$4,284

We have a services agreement with Immeon to perform services for the operation of Immeon through December 31, 2002. If certain financial milestones have not been met by December 31, 2002 we may terminate the services agreement at that time; provided, however, that we would maintain an obligation to provide service to Immeon customers through the end of its customer contracts in 2004.

We are currently a party to various government and commercial contracts which require us to meet performance covenants and project milestones. Under the terms of these contracts, failure by us to meet such performance covenants and milestones permit the other party to terminate the contract and, under certain circumstances, recover liquidated damages or other penalties. We are currently not in compliance (or in the past were not in compliance) with the performance or milestone requirements of certain of these contracts. Historically, our customers have not elected to terminate such contracts or seek liquidated damages from us; therefore, we have not accrued for any potential liquidated damages or penalties.

Factors That May Affect Future Performance

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report, including our financial statements and the related notes.

Our Success Depends on Our Ability to Grow Our Commercial Business

To date, our historical growth has been driven largely by our success in meeting the needs for advanced communications products for the U.S. military. We have been increasing our focus in recent years on offering satellite-based communications products to address commercial market needs. We cannot assure you that we will be able to successfully continue to grow our commercial satellite communications business or that we will be able to compete effectively in the commercial market in the future. If we are unable to successfully continue to grow our commercial business or compete effectively in the commercial market in the future, it could materially harm our business and impair the value of our common stock.

If Commercial Wireless Communications Markets Fail to Grow as Anticipated, Our Business Could Be Materially Harmed

A number of the commercial markets for our products in the wireless communications area, including our DAMA and broadband products, have only recently developed. Because these markets are relatively new, it is difficult to predict the rate at which these markets will grow, if at all. If the markets for commercial wireless communications products fail to grow, or grow more slowly than anticipated, our business could be materially harmed. Conversely, to the extent that growth in these markets results in

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capacity limitations in the wireless communications area, it could materially harm our business and impair the value of our common stock.

Our Reliance on U.S. Government Contracts Exposes Us To Significant Risks

Approximately 38% of our revenues in fiscal year 2001, 32% of our revenues in fiscal year 2002 and 45% of our revenues for the first six months of fiscal year 2003 were derived from U.S. government applications. Although the recent growth of our commercial business has substantially reduced our dependence on U.S. government business, this business will continue to represent a significant portion of our revenues for the foreseeable future. U.S. government business exposes us to various risks, including:

- unexpected contract or project terminations or suspensions,
- unpredictable order placements, reductions or cancellations,
- reductions in government funds available for our projects due to government policy changes, budget cuts and contract adjustments,
- penalties arising from post-award contract audits,
- cost audits in which the value of our contracts may be reduced,
- higher-than-expected final costs, particularly relating to software and hardware development, for work performed under contracts where we commit to specified deliveries for a fixed price,
- limited profitability from cost-reimbursement contracts under which the amount of profit is limited to a specified amount, and
- unpredictable cash collections of unbilled receivables that may be subject to acceptance of contract deliverables by the customer and contract close-out procedures, including government approval of final indirect rates.

In addition, substantially all of our U.S. government backlog scheduled for delivery can be terminated at the convenience of the U.S. government because our contracts with the U.S. government typically provide that orders may be terminated with limited or no penalties. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

We Face Risks from the Domestic and Global Slowdown

The global economy is in the midst of a slowdown that has had significant effects on markets that we serve, particularly satellite communications equipment manufacturers and network operators. This downturn has had a negative effect on our revenues. We cannot predict the depth or duration of this downturn, and if it grows more severe or continues for a long period of time, our ability to increase or maintain our revenues and operating results may be impaired. In addition, because we intend to continue to make significant investments in research and development during this downturn, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

Further, because current domestic and global economic conditions and economies are extremely uncertain, it is difficult to estimate the growth in various parts of the economy, including the markets in which we participate. Because parts of our budgeting and forecasting are reliant on estimates of growth in the markets we serve, the current economic uncertainty renders estimates of future income and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on our overall financial performance and impair the value of our common stock.

If Our Customers Experience Financial or Other Difficulties, Our Business Could Be Materially Harmed

A number of our commercial customers have in the past, and may in the future experience financial difficulties. Many of our commercial customers face risks that are similar to those we encounter, including risks associated with market growth, acceptance by the market of products and services, and the ability to

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obtain sufficient capital. We cannot assure you that our customers will be successful in managing these risks. If our customers do not successfully manage these types of risks, it could impair our ability to generate revenues, collect amounts due from these customers and materially harm our business.

In particular, on December 5, 2001 one of our customers, Astrolink International LLC, terminated for convenience two of our ground segment contracts. The termination requires Astrolink to pay us a termination amount that is based on a predetermined formula provided by the two contracts. This aggregate termination amount is approximately \$34.1 million. At the time of termination, one of Astrolink's major investors had announced that it would not invest further in the Astrolink program. Astrolink contracts, in total, accounted for approximately 10% of our revenues in fiscal year 2002. The assets at risk to Astrolink as of September 30, 2002 were accounts receivable of approximately \$6.3 million (which represents a portion of the \$34.1 million termination claim), inventory specific to Astrolink of \$394,000 and \$2.5 million for prepaid airtime on Astrolink satellites. We expect that our assets at risk will exceed \$9.2 million, however, the additional amount of assets at risk is not determinable at this time. We are having continuing discussions with Astrolink, Astrolink's investors, and other interested parties regarding potential alternatives for the Astrolink project. We cannot, however, make assurances that the assets at risk or the contractual termination amounts will be fully recovered, if at all. If Astrolink is unable to successfully restructure its operations or obtain additional funding, it would substantially limit our ability to recover the assets at risk and could cause us to incur substantial losses and impair the value of our common stock.

Other major communications infrastructure programs, such as proposed satellite communications systems, are important sources of our current and planned future revenues. We also participate in a number of defense programs. Programs of these types cannot proceed unless the customer can raise adequate funds, from either governmental or private sources. As a result, our expected revenues can be adversely affected by political developments or by conditions in private capital markets. They can also be adversely affected if private capital markets are not receptive to a customer's proposed business plans. If our customers are unable to raise adequate funds it could materially harm our business and impair the value of our common stock.

Two commercial customers on whom we are relying in part for future revenue growth face challenges that could result in their failure to deploy planned systems in accordance with current schedules. We believe that Wildblue Communications, with which we have a large contract for the development of satellite modems and satellite modem termination systems for a planned Ka-band broadband Internet platform, may need to raise additional funds in the near future in order to remain viable, and may have difficulty obtaining such funds. Similarly, Connexion by Boeing, which has awarded us a contract to design and manufacture receive-and-transmit subsystems and other components for a satellite in-flight data network, faces substantial challenges with respect to the development of its system. Several airlines that had partnered with Boeing on the Connexion project publicly announced withdrawal from the project during fiscal year 2002. Any failure on the part of either Wildblue Communications or Boeing to deploy successfully its intended system as a result of lack of funding or other difficulties could materially harm our business and impair the value of our common stock.

A Significant Portion of Our Revenues is Derived from a Few of Our Contracts

A small number of our contracts account for a significant percentage of our revenues. Historically, our largest revenue producing contracts have been U.S. government contracts related to our UHF DAMA technology, which generated approximately 9% of our revenues in fiscal year 2001, 10% of our revenues in fiscal year 2002 and 15% of our revenues for the first six months of fiscal year 2003. Our five largest contracts generated approximately 36% of our revenues in fiscal year 2001 and 33% of our revenues in fiscal year 2002. The failure of these customers to place additional orders or to maintain these contracts with us for any reason, including any downturn in their business or financial condition, or our inability to renew or replace our contracts with these customers when they expire could materially harm our business and impair the value of our common stock.

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We Depend Heavily on the VSAT Market

We derived approximately 29% of our revenues in fiscal year 2001, 31% of our revenues in fiscal year 2002 and 35% of our revenues for the first six months of fiscal year 2003 from sales of VSAT communications networks. While the market for VSAT communications networks and services has grown steadily since its inception in the mid-1980s, this market may not continue to grow or VSAT technology may be replaced by an alternative technology. A significant decline in this market or the replacement of VSAT technology by an alternative technology could materially harm our business and impair the value of our common stock.

Our Credit Facility Contains Restrictions that Could Limit Our Ability to Implement Our Business Plan

The restrictions contained in our Loan Agreement may limit our ability to implement our business plan, finance future operations, respond to changing business and economic conditions, secure additional financing, and engage in opportunistic transactions, such as strategic acquisitions. In addition, if we fail to meet the covenants contained in our Loan Agreement, repayment of our outstanding indebtedness may be accelerated. Such indebtedness, among other things, restricts our ability to do the following:

- incur additional indebtedness,
- create liens,
- make certain payments, including payments of dividends in respect of capital stock,
- consolidate, merge and sell assets,
- engage in certain transactions with affiliates, and
- make acquisitions.

In addition, such indebtedness requires us to maintain certain ratios, including:

- debt to EBITDA (earnings before interest, taxes, depreciation and amortization) and
- quick ratio (sum of cash, accounts receivable and marketable securities to current liabilities),

and to satisfy certain tests, including tests relating to:

- limits on capital expenditures,
- minimum quarterly EBITDA, and
- minimum tangible net worth.

We cannot assure you that we will be able to comply with our financial covenants or that any financial covenant violations will be waived. Any violation that is not waived could result in an event of default, permitting the Administrative Agent and lenders to suspend commitments to make any advance, to declare notes and interest thereon due and payable, and to require any outstanding letters of credit to be collateralized by an interest bearing cash account, any or all of which could have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to comply with our financial covenants, we may need additional financing in order to

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service or extinguish our indebtedness. We may not be able to obtain financing or refinancing on terms that are acceptable to us, if at all.

Our Success Depends on the Development of New Satellite and Other Wireless Communications Products and Our Ability to Gain Acceptance of These Products

The wireless communications market in general, and the satellite communications market in particular, are subject to rapid technological change, frequent new and enhanced product introductions, product obsolescence and changes in user requirements. Our ability to compete successfully in these markets depends on our success in applying our expertise and technology to existing and emerging satellite and other wireless communications markets. Our ability to compete in these markets also depends in large part on our ability to successfully develop, introduce and sell new products and enhancements on a timely and cost-effective basis that respond to ever-changing customer requirements. Our ability to successfully introduce new products depends on several factors, including:

- successful integration of various elements of our complex technologies and system architectures,
- timely completion and introduction of new product designs,
- achievement of acceptable product costs,
- timely and efficient implementation of our manufacturing and assembly processes and cost reduction efforts,
- establishment of close working relationships with major customers for the design of their new wireless communications systems incorporating our products,
- development of competitive products by competitors,
- marketing and pricing strategies of our competitors with respect to competitive products, and
- market acceptance of our new products.

We cannot assure you that our product development efforts for communications products will be successful or that any new products that we develop, including ArcLight, Surfbeam and LinkStar, will achieve market acceptance. We may experience difficulties that could delay or prevent us from successfully selecting, developing, manufacturing or marketing new products or enhancements. In addition, defects may be found in our products after we begin deliveries, which could result in the delay or loss of market acceptance. If we are unable to design, manufacture, integrate and market profitable new products for existing or emerging communications markets, it could materially harm our business and impair the value of our common stock.

A Decrease in the Selling Prices of Our Products Could Materially Harm Our Business

The average selling prices of wireless communications products historically decline over product life cycles. In particular, we expect the average selling prices of our products to decline as a result of competitive pricing pressures and customers who negotiate discounts based on large unit volumes. We also expect that competition in this industry will continue to increase. To offset these price decreases, we intend to rely primarily on obtaining yield improvements and corresponding cost reductions in the manufacturing process of existing products and on the introduction of new products with advanced features that can be sold at higher prices. However, we cannot assure you that we will be able to obtain any yield improvements or cost reductions or introduce any new products in the future. To the extent that we do not reduce costs or introduce new products in a timely manner, or our new products do not achieve market acceptance, it could materially harm our business and impair the value of our common stock.

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Our Development Contracts May Be Difficult for Us to Comply With and May Expose Us to Third-Party Claims for Damages

We are often party to government and commercial contracts that involve the development of new products. We derived approximately 48% of our revenues in fiscal year 2001 and 38% of our revenues in fiscal year 2002 from these development contracts. These contracts typically contain strict performance obligations and project milestones. We cannot assure you that we will comply with these performance obligations or meet these project milestones. If we are unable to comply with these performance obligations or meet these milestones, our customers may terminate these contracts and, under some circumstances, recover damages or other penalties from us. We are not currently, nor have we always been, in compliance with all outstanding performance obligations and project milestones. In the past, when we have not complied with the performance obligations or project milestones in a contract, generally, the other party has not elected to terminate the contract or seek damages from us. However, we cannot assure you that in the future other parties will not terminate their contracts or seek damages from us. If other parties elect to terminate their contracts or seek damages from us, it could materially harm our business and impair the value of our common stock.

We May Experience Losses from Our Fixed-Price Contracts

Approximately 94% of our revenues in fiscal year 2001, 97% of our revenues in fiscal year 2002 and 96% of our revenues for the first six months of fiscal year 2003 were derived from contracts with fixed prices. We assume greater financial risk on fixed-price contracts than on other types of contracts because if we do not anticipate technical problems, estimate costs accurately or control costs during performance of a fixed-price contract, it may significantly reduce our net profit or cause a loss on the contract. We believe that a high percentage of our contracts will be at fixed prices in the future. Although we attempt to accurately estimate costs for fixed-price contracts, we cannot assure you that our estimates will be adequate or that substantial losses on fixed-price contracts will not occur in the future. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

We Expect to Increase Our Research and Development Costs, Which Could Significantly Reduce Our Profitability

Our future growth depends on penetrating new markets, adapting existing satellite communications products to new applications, and introducing new communications products that achieve market acceptance. Accordingly, we are actively applying our communications expertise to design and develop new hardware and software products and enhance existing products. We expended \$6.2 million in fiscal year 2001, \$9.4 million in fiscal year 2002 and \$9.2 in the research and development activities. We expect to continue to spend increased amounts relative to historical levels on research and development in the near future. The increased amounts in the near future will be due in large part to the higher levels of research and development expenses associated with the product development activities of our subsidiary U.S. Monolithics. Because we account for research and development as an operating expense, these expenditures will adversely affect our earnings in the near future. Our research and development program may not produce successful results, which could materially harm our business and impair the value of our common stock.

Our Reliance on a Limited Number of Third Parties to Manufacture and Supply Our Products Exposes Us to Various Risks

Our internal manufacturing capacity is limited and we do not intend to expand that capability in the foreseeable future. We rely on a limited number of contract manufacturers to produce our products and expect to rely increasingly on these manufacturers in the future. In addition, some components, subassemblies and services necessary for the manufacture of our products are obtained from a sole supplier or a limited group of suppliers. In particular, Texas Instruments is a sole source supplier of digital signal processing chips, which are critical components in substantially all of our products.

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Our reliance on contract manufacturers and on sole suppliers or a limited group of suppliers involves several risks. We may not be able to obtain an adequate supply of required components, and our control over the price, timely delivery, reliability and quality of finished products may be reduced. The process of manufacturing our products and some of our components and subassemblies is extremely complex. We have in the past experienced and may in the future experience delays in the delivery of and quality problems with products and components and subassemblies from vendors. Some of the suppliers that we rely upon have relatively limited financial and other resources. If we are not able to obtain timely deliveries of components and subassemblies of acceptable quality or if we are otherwise required to seek alternative sources of supply, or to manufacture our finished products or components and subassemblies internally, it could delay or prevent us from delivering our systems promptly and at high quality. This failure could damage relationships with current or prospective customers, which, in turn, could materially harm our business and impair the value of our common stock.

Our Ability to Protect Our Proprietary Technology is Limited and Infringement Claims Against Us Could Restrict Our Ability to Conduct Business

Our success depends significantly on our ability to protect our proprietary rights to the technologies we use in our products and services. If we are unable to protect our proprietary rights adequately, our competitors could use the intellectual property that we have developed to enhance their own products and services, which could materially harm our business and impair the value of our common stock. We currently rely on a combination of patents, trade secret laws, copyrights, trademarks, service marks and contractual rights to protect our intellectual property. We cannot assure you that the steps we have taken to protect our proprietary rights will be adequate. Additionally, the laws of some foreign countries in which our products are or may be sold do not protect our intellectual property rights to the same extent as do the laws of the United States.

Litigation may often be necessary to protect our intellectual property rights and trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. We believe that infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims will likely be asserted against us in the future. If any claims or actions are asserted against us, we may seek to obtain a license under a third party's intellectual property rights. We cannot assure you, however, that a license will be available under reasonable terms or at all. Litigation of intellectual property claims could be extremely expensive and time consuming, which could materially harm our business, regardless of the outcome of the litigation. If our products are found to infringe upon the rights of third parties, we may be forced to incur substantial costs to develop alternative products. We cannot assure you that we would be able to develop alternative products or that if these alternative products were developed, they would perform as required or be accepted in the applicable markets. If we are unable to address any of the risks described above relating to the protection of our proprietary rights, it could materially harm our business and impair the value of our common stock.

The Markets We Serve Are Highly Competitive and Our Competitors May Have Greater Resources Than Us

The wireless communications industry is highly competitive and competition is increasing. In addition, because our industry is evolving and characterized by rapid technological change, it is difficult for us to predict whether, when and who may introduce new competing technologies, products or services into our markets. Currently, we face substantial competition from domestic and international wireless and ground-based communications service providers in the commercial and government industries. Many of our competitors and potential competitors have significant competitive advantages, including strong customer relationships, more experience with regulatory compliance, greater financial and management resources, and control over central communications networks. In addition, some of our customers continuously evaluate whether to develop and manufacture their own products and could elect to compete with us at any time. Increased competition from any of these or other entities could materially harm our business and impair the value of our common stock.

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We Depend on a Limited Number of Key Employees Who Would Be Difficult to Replace

We depend on a limited number of key technical, marketing and management personnel to manage and operate our business. In particular, we believe that our success depends to a significant degree on our ability to attract and retain highly skilled personnel, including our President and Chief Executive Officer, Mark D. Dankberg, and those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for these types of personnel is intense, and the loss of key employees could materially harm our business and impair the value of our common stock. We do not have employment agreements with any of our officers. We have obtained a key person insurance policy on the life of Mr. Dankberg.

We May Engage in Strategic Transactions That Could Result in Significant Charges and Management Disruption and Fail to Enhance Stockholder Value

From time to time, we consider strategic transactions and alternatives with the goal of maximizing stockholder value, such as the spin-off of TrellisWare Technologies in August 2000 and the formation of the Immeon Networks joint venture in January 2001 with Loral Skynet, a division of Loral Spacecom. These strategic transactions entail a high degree of risk.

We will continue to evaluate potential strategic transactions and alternatives that we believe may enhance stockholder value. These potential future transactions may include a variety of different business arrangements, including acquisitions, spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments. Although our goal is to maximize stockholder value, such transactions may have unexpected results that adversely affect our business and the trading price of our common stock. Any such transaction may require us to incur non-recurring or other charges and may pose significant integration challenges and/or management and business disruptions, any of which could harm our operating results and business prospects.

Any Failure to Successfully Integrate Strategic Acquisitions Could Adversely Affect Our Business

In order to position ourselves to take advantage of growth opportunities, we have made, and may continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include:

- the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner,
- the challenges in achieving strategic objectives, cost savings and other benefits expected from acquisitions,
- the risk that our markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets,
- the potential loss of key employees of the acquired businesses,
- the risk of diverting the attention of senior management from the operations of our business, and
- the risks of entering markets in which we have less experience.

Any failure to successfully integrate strategic acquisitions could harm our business and impair the value of our common stock. Furthermore, to complete future acquisitions we may issue equity securities, incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could cause our earnings per share to decline.

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Because We Conduct Business Internationally, We Face Additional Risks Related to Global Political and Economic Conditions and Currency Fluctuations

Approximately 22% of our revenues in fiscal year 2001, 28% of our revenues in fiscal year 2002 and 26% of our revenues for the first six months of fiscal year 2003 were derived from international sales. We anticipate that international sales will account for an increasing percentage of our revenues over the next several years. Many of these international sales may be denominated in foreign currencies. Because we do not currently engage in nor do we currently anticipate engaging in foreign currency hedging transactions, a decrease in the value of foreign currencies relative to the U.S. dollar could result in losses from transactions denominated in foreign currencies. This decrease in value could also make our products less price-competitive.

There are additional risks in conducting business internationally, including:

- unexpected changes in regulatory requirements,
- increased cost of localizing systems in foreign countries,
- increased sales and marketing and research and development expenses,
- availability of suitable export financing,
- timing and availability of export licenses,
- tariffs and other trade barriers,
- political and economic instability,
- challenges in staffing and managing foreign operations,
- difficulties in managing distributors,
- potentially adverse tax consequences,
- potential difficulty in making adequate payment arrangements, and
- potential difficulty in collecting accounts receivable.

In addition, some of our customer purchase agreements are governed by foreign laws, which may differ significantly from U.S. laws. We may be limited in our ability to enforce our rights under these agreements and to collect damages, if awarded. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

Adverse Regulatory Changes Could Impair Our Ability to Sell Products

Our products are incorporated into wireless communications systems that must comply with various government regulations, including those of the Federal Communications Commission (FCC). In addition, we operate and provide services to customers through the use of several satellite earth hub stations that are licensed by the FCC. Regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by (1) restricting development efforts by us and our customers, (2) making our current products less attractive or obsolete, or (3) increasing the opportunity for additional competition. Changes in, or our failure to comply with, applicable regulations could materially harm our business and impair the value of our common stock. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards for these products and services, generally following extensive investigation of and deliberation over competing

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technologies. The delays inherent in this government approval process have caused and may continue to cause our customers to cancel, postpone or reschedule their installation of communications systems. This, in turn, may have a material adverse effect on our sales of products to our customers.

We Face Potential Product Liability Claims

We may be exposed to legal claims relating to the products we sell or the services we provide. Our agreements with our customers generally contain terms designed to limit our exposure to potential product liability claims. We also maintain a product liability insurance policy for our business. However, our insurance may not cover all relevant claims or may not provide sufficient coverage. If our insurance coverage does not cover all costs resulting from future product liability claims, it could materially harm our business and impair the value of our common stock.

Our Operating Results Have Varied Significantly from Quarter to Quarter in the Past and, if They Continue to do so, the Market Price of Our Common Stock Could Be Impaired

Our operating results have varied significantly from quarter to quarter in the past and may continue to do so in the future. The factors that cause our quarter-to-quarter operating results to be unpredictable include:

- a complex and lengthy procurement process for most of our customers or potential customers,
- changes in the levels of research and development spending, including the effects of associated tax credits
- the difficulty in estimating costs over the life of a contract, which may require adjustment in future periods,
- the timing, quantity and mix of products and services sold,
- price discounts given to some customers,
- market acceptance and the timing of availability of our new products,
- the timing of customer payments for significant contracts,
- one time charges to operating income arising from items such as acquisition expenses and write-offs of assets related to customer non-payments,
- the failure to receive an expected order or a deferral of an order to a later period, and
- general economic and political conditions.

As a result, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely upon them as indicators of future performance. If we are unable to address any of the risks described above, it could materially impair the value of our common stock. In addition, it is likely that in one or more future quarters our results may fall below the expectations of analysts and investors. In this event, the trading price of our common stock would likely decrease.

Our Executive Officers and Directors Own a Large Percentage of Our Common Stock and Exert Significant Influence Over Matters Requiring Stockholder Approval

As of November 11, 2002, our executive officers and directors and their affiliates beneficially owned an aggregate of approximately 21% of our common stock. Accordingly, these stockholders may be able to significantly influence the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions. These stockholders may exercise this ability in a manner that advances their best interests

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and not necessarily those of other stockholders. This ownership interest could also have the effect of delaying or preventing a change in control.

We Have Implemented Anti-Takeover Provisions That Could Prevent an Acquisition of Our Business at a Premium Price

Some of the provisions of our certificate of incorporation and bylaws could discourage, delay or prevent an acquisition of our business at a premium price. These provisions:

- permit the board of directors to increase its own size and fill the resulting vacancies,
- provide for a board comprised of three classes of directors with each class serving a staggered three-year term,
- authorize the issuance of preferred stock in one or more series, and
- prohibit stockholder action by written consent.

In addition, Section 203 of the Delaware General Corporation Law imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock.

Our Forward-looking Statements are Speculative and May Prove to be Wrong

Some of the information in this Quarterly Report involves forward-looking statements. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Quarterly Report that are not historical facts. When used in this Quarterly Report, the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors, including the factors discussed in this “Factors that May Affect Future Performance” section of the Quarterly Report, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our financial instruments consist of cash and cash equivalents, short-term investments, trade accounts receivable, accounts payable, and short-term obligations including the revolving line of credit. We consider investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents. Our exposure to market risk for changes in interest rates relates primarily to short-term investments and short-term obligations. As a result, we do not expect fluctuations in interest rates to have a material impact on the fair value of these securities.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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Within 90 days prior to the date of this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Disclosure Committee of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Disclosure Committee concluded that our disclosure controls and procedures were effective. However, as a result of this evaluation, some immaterial weaknesses in our internal controls were identified in the normal course of business. Immaterial weaknesses identified were related to implementation of a new enterprise resource planning (ERP) financial system at one of our business locations. Our management and the Audit Committee of our Board of Directors are aware of these immaterial weaknesses and plan to implement changes to correct them as soon as practicable.

There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date we completed our evaluation.

PART II — OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- (a) We held our Annual Meeting of Stockholders on September 3, 2002.
- (b) See paragraph (c) below.
- (c) The matters voted upon at the meeting and the votes cast with respect thereto were as follows:

	Votes For	Votes Against/Withheld	Abstentions	Broker Non-Votes
Election of Directors				
Mark D. Dankberg	21,300,3753	-0-	734,912	-0-

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit 10.1 — Amendment No. 4 to Revolving/Term Loan Agreement executed November 14, 2002 by and among Union Bank of California, Comerica Bank — California and ViaSat, Inc.(1)
- (b) On July 11, 2002, we filed a current report on Form 8-K, reporting under Item 5 that we had signed amendments to our Revolving/Term Loan Agreement, and attaching such amendments.
- (1) Certain portions of this exhibit have been requested to be redacted pursuant to a request for confidential treatment filed by ViaSat, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VIASAT, INC.

November 14, 2002

/s/ MARK D. DANKBERG

Mark D. Dankberg
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

/s/ RONALD G. WANGERIN

Ronald G. Wangerin
Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Mark D. Dankberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ViaSat, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ MARK D. DANKBERG

Mark D. Dankberg
Chief Executive Officer

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I, Ronald G. Wangerin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ViaSat, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ RONALD G. WANGERIN

Ronald G. Wangerin
Chief Financial Officer

*** CERTAIN CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

AMENDMENT NO. 4 TO
REVOLVING/TERM LOAN AGREEMENT

THIS AMENDMENT NO. 4 TO REVOLVING/TERM LOAN AGREEMENT (this "Amendment"), dated as of November 14, 2002, is entered into by and among the financial institutions listed on the signature pages hereof (individually, a "Lender" and collectively, the "Lenders"), Union Bank of California, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"), and ViaSat, Inc., a Delaware corporation (the "Borrower"), with reference to the following facts:

RECITALS

- A. The Borrower, the Lenders and the Administrative Agent are parties to that certain Revolving/Term Loan Agreement, dated as of June 21, 2001, as amended (collectively, the "Loan Agreement"), pursuant to which the Lenders have provided the Borrower with certain credit facilities.
- B. The Borrower and the Lenders wish to amend the Loan Agreement as set forth below.

NOW, THEREFORE, the parties hereby agree as follows:

- 1. Defined Terms. Any and all initially capitalized terms used in this Amendment (including, without limitation, in the recitals hereto) without definition shall have the respective meanings specified in the Loan Agreement.
- 2. Extension of Revolving Loan Maturity Date. Section 1.1 of the Loan Agreement is hereby amended such that the definition of "Revolving Loan Maturity Date" shall read in full as follows: "Revolving Loan Maturity Date" means June 30, 2003."
- 3. Amendment to Maximum Leverage Ratio Covenant. Section 6.12 of the Loan Agreement is hereby amended to read in full as follows:

"6.12 Leverage Ratio. Permit the Leverage Ratio as of September 30, 2002 to be greater than *** or permit the Leverage Ratio as of the last day of any subsequent Fiscal Quarter to be greater than ***."

4. Amendment to Minimum EBITDA Covenant. Section 6.13 of the Loan Agreement is hereby amended to read in full as follows:

"6.13 EBITDA. Permit EBITDA for the Fiscal Quarter ending September 30, 2002 to be less than *** or permit EBITDA for any subsequent Fiscal Quarter to be less than ***."

5. Amendment to Schedule of Lender Commitments. Schedule 1.1 to the Loan Agreement is hereby amended to read in full as set forth on Schedule 1.1 to this Amendment.

6. Amendment Fee. In consideration of the Lenders' agreement to enter into this Amendment and provide the Borrower with the accommodations described herein, on the effective date of this Amendment, the Borrower shall pay to the Administrative Agent, for the ratable benefit of the Lenders, a one-time fee of \$*** (the "Amendment Fee"). The Borrower acknowledges and agrees that, at the Administrative Agent's option, the Administrative Agent may effect payment of the Amendment Fee by charging the full amount of such fee, when due, to the Borrower's Revolving Loan account or to the Borrower's checking account at Union Bank of California, N.A.

7. Conditions Precedent. The effectiveness of this Amendment shall be subject to the prior satisfaction of each of the following conditions:

- (a) This Amendment. The Administrative Agent shall have received an original of this Amendment, duly executed by the Borrower and each of the Lenders;
- (b) Commitment Assignment and Acceptance. The Administrative Agent shall have received an original Commitment Assignment and Acceptance, duly executed by U.S. Bank National Association, as Assignor, and Comerica Bank - California, as Assignee, and duly consented to by the Borrower;
- (c) New Note for Comerica; Return of U.S. Bank Note. The Administrative Agent shall have received a Revolving Note in the original principal amount of \$10,000,000 executed by the Borrower to the order of Comerica Bank - California and U.S. Bank National Association shall have delivered its

original Revolving Note to the Administrative Agent marked "cancelled" or "paid in full"; and

- (d) Other Documents. The Borrower shall have executed and delivered to the Administrative Agent such other documents and instruments as the Administrative Agent may reasonably require.

8. Miscellaneous.

- (a) Survival of Representations and Warranties. All representations and warranties made in the Loan Agreement or in any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by the Administrative Agent or the Lenders or any closing shall affect the representations and warranties or the right of the Administrative Agent or any Lender to rely thereon.
- (b) No Events of Default. The Borrower is not aware of any events which now constitute, or with the passage of time or the giving of notice, or both, would constitute, an Event of Default under the Loan Agreement.
- (c) Reference to Loan Agreement. The Loan Agreement, each of the other Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof, or pursuant to the terms of the Loan Agreement as amended hereby, are hereby amended so that any reference therein to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.
- (d) Loan Agreement Remains in Effect. The Loan Agreement and the other Loan Documents remain in full force and effect and the Borrower ratifies and confirms its agreements and covenants contained therein. The Borrower hereby confirms that, after giving effect to this Amendment, no Event of Default or Default exists as of such date.
- (e) Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable

shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

- (f) APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF CALIFORNIA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.
- (g) Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of the Lenders and the Borrower and their respective successors and assigns; provided, however, that the Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Lenders.
- (h) Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.
- (i) Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.
- (j) NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENTS THE FINAL AGREEMENT BETWEEN THE LENDERS AND THE BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE LENDERS AND THE BORROWER.

IN WITNESS WHEREOF, the parties have entered into this Amendment by their respective duly authorized officers as of the date first above written.

VIASAT, INC.

By: _____

Ronald G. Wangerin
Vice President and Chief
Financial Officer

Address:

ViaSat, Inc.
6155 El Camino Real
Carlsbad, California 92009
Attn: Mr. Ronald G. Wangerin
Vice President and Chief
Financial Officer
Telecopier: (760) 476-2200
Telephone: (760) 929-3926

UNION BANK OF CALIFORNIA
N.A., as the Administrative Agent

By: _____

Douglas S. Lambell
Vice President

Address:

Union Bank of California, N.A.
San Diego Commercial Banking Office
530 "B" Street, 4th Floor, S-420
San Diego, California 92101-4407
Attn: Mr. Douglas S. Lambell
Telecopier: (619) 230-3766
Telephone: (619) 230-3029

By: _____

Douglas S. Lambell Vice President

Address:

Union Bank of California, N.A. San
Diego Commercial Banking Office
530 "B" Street, 4th Floor, S-420
San Diego, California 92101-4407
Attn: Mr. Douglas S. Lambell
Telecopier: (619) 230-3766
Telephone: (619) 230-3029
COMERICA BANK - CALIFORNIA,
as a Lender

By: _____

Name: _____

Title: _____

Address:

Comerica Bank - California
600 "B" Street, Suite 100
San Diego, California 92101-4502
Attn: Stephen M. Cusato
Telecopier: (619) _____
Telephone: (619) _____

SCHEDULE 1.1

LENDER COMMITMENTS

	Revolving Commitment Amount -----	Pro Rata Share -----
Union Bank of California, N.A.	\$10,000,000	50%
Comerica Bank - California	\$10,000,000 =====	50% =====
Total:	\$20,000,000	100%