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

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**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 January 2, 2004.

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's Common Stock, \$.0001 par value, as of January 26, 2004 was 26,359,878.

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VIASAT, INC.

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## VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)  
(In thousands)

|   | March 31, 2003 | January 2, 2004 |
|---|----------------|-----------------|
| <b>Assets</b>                                 |                |                 |
| Current assets:                               |                |                 |
| Cash and cash equivalents                     | \$ 4,111       | \$ 20,286       |
| Short-term investments                        | 158            | 160             |
| Accounts receivable, net                      | 80,962         | 89,180          |
| Inventory                                     | 29,758         | 27,209          |
| Deferred income taxes                         | 4,241          | 6,072           |
| Prepaid expenses and other current assets     | 6,015          | 10,387          |
|   | <hr/>          | <hr/>           |
| Total current assets                          | 125,245        | 153,294         |
| Goodwill                                      | 19,492         | 19,492          |
| Other intangible assets, net                  | 35,474         | 29,596          |
| Property and equipment, net                   | 33,609         | 32,675          |
| Other assets                                  | 23,335         | 18,855          |
|   | <hr/>          | <hr/>           |
| Total assets                                  | \$237,155      | \$253,912       |
|   | <hr/>          | <hr/>           |
| <b>Liabilities and Stockholders' Equity</b>   |                |                 |
| Current liabilities:                          |                |                 |
| Accounts payable                              | \$ 21,983      | \$ 26,102       |
| Accrued liabilities                           | 19,036         | 29,256          |
| Line of credit                                | 9,950          | —               |
|   | <hr/>          | <hr/>           |
| Total current liabilities                     | 50,969         | 55,358          |
| Other liabilities                             | 1,847          | 2,582           |
|   | <hr/>          | <hr/>           |
| Total liabilities                             | 52,816         | 57,940          |
|   | <hr/>          | <hr/>           |
| Contingencies (Note 8)                        |                |                 |
| Minority interest in consolidated subsidiary  | 452            | 544             |
|   | <hr/>          | <hr/>           |
| Stockholders' equity:                         |                |                 |
| Common stock                                  | 3              | 3               |
| Paid in capital                               | 154,293        | 156,234         |
| Retained earnings                             | 29,853         | 39,207          |
| Unearned compensation                         | (35)           | (27)            |
| Accumulated other comprehensive income (loss) | (227)          | 11              |
|   | <hr/>          | <hr/>           |
| Total stockholders' equity                    | 183,887        | 195,428         |
|   | <hr/>          | <hr/>           |
| Total liabilities and stockholders' equity    | \$237,155      | \$253,912       |
|   | <hr/>          | <hr/>           |

See accompanying notes to condensed consolidated financial statements

## VIASAT, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(In thousands, except per share amounts)**

|  | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | December 31, 2002  | January 2, 2004 | December 31, 2002 | January 2, 2004 |
| Revenues   | \$48,962           | \$71,758        | \$131,322         | \$195,358       |
| Cost of revenues   | 39,718             | 51,757          | 100,996           | 142,526         |
| Gross profit   | 9,244              | 20,001          | 30,326            | 52,832          |
| Operating expenses:  |                    |                 |                   |                 |
| Selling, general and administrative                            | 9,102              | 6,389           | 26,728            | 27,572          |
| Independent research and development                           | 2,517              | 1,963           | 11,704            | 7,896           |
| Amortization of intangible assets                              | 2,112              | 1,959           | 6,335             | 5,878           |
| Income (loss) from operations                                  | (4,487)            | 9,690           | (14,441)          | 11,486          |
| Other income (expense):  |                    |                 |                   |                 |
| Interest income  | 3                  | 5               | 33                | 9               |
| Interest expense   | (324)              | (57)            | (633)             | (327)           |
| Minority interest  | (10)               | (38)            | (26)              | (157)           |
| Equity in loss of joint venture                                | (463)              | (79)            | (1,622)           | (160)           |
| Income (loss) before income taxes                              | (5,281)            | 9,521           | (16,689)          | 10,851          |
| Provision (benefit) for income taxes                           | (2,669)            | 2,432           | (8,340)           | 1,497           |
| Net income (loss)  | \$ (2,612)         | \$ 7,089        | \$ (8,349)        | \$ 9,354        |
| Basic net income (loss) per share                              | \$ (.10)           | \$ .27          | \$ (.32)          | \$ .36          |
| Diluted net income (loss) per share                            | \$ (.10)           | \$ .26          | \$ (.32)          | \$ .34          |
| Shares used in basic net income (loss) per share computation   | 26,018             | 26,262          | 25,979            | 26,211          |
| Shares used in diluted net income (loss) per share computation | 26,018             | 27,748          | 25,979            | 27,311          |

See accompanying notes to condensed consolidated financial statements

## VIASAT, INC.

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

|  | Nine Months Ended |                 |
|--|-------------------|-----------------|
|  | December 31, 2002 | January 2, 2004 |
| Cash flows from operating activities:  |                   |                 |
| Net income (loss)  | \$ (8,349)        | \$ 9,354        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                   |                 |
| Depreciation   | 7,469             | 7,831           |
| Amortization of intangible assets and software   | 7,155             | 7,754           |
| Deferred income taxes  | (3,593)           | 375             |
| Equity in loss of joint venture  | 1,622             | 160             |
| Minority interest in consolidated subsidiary   | 4                 | 92              |
| Non-cash compensation  | 129               | 8               |
| Tax benefit from exercise of stock options   | 11                | —               |
| Increase (decrease) in cash resulting from changes in, net of effects of acquisitions:   |                   |                 |
| Accounts receivable  | (866)             | (8,029)         |
| Inventory  | (3,059)           | 2,939           |
| Other assets   | (928)             | (3,955)         |
| Accounts payable   | 7,599             | 4,103           |
| Accrued liabilities  | 1,032             | 10,238          |
| Other liabilities  | (311)             | 162             |
| Net cash provided by operating activities  | <u>7,915</u>      | <u>31,032</u>   |
| Cash flows from investing activities:  |                   |                 |
| Investment in joint venture  | (1,622)           | (159)           |
| Purchases of short-term investments, net   | (2)               | (2)             |
| Investment in capitalized software   | (5,149)           | —               |
| Purchases of property and equipment, net   | (9,269)           | (6,890)         |
| Net cash used in investing activities  | <u>(16,042)</u>   | <u>(7,052)</u>  |
| Cash flows from financing activities:  |                   |                 |
| Proceeds from (repayment of) line of credit, net   | 4,450             | (9,950)         |
| Forfeited unexercised options  | (53)              | —               |
| Proceeds from issuance of common stock, net of issuance costs                            | 1,490             | 1,941           |
| Net cash provided by (used in) financing activities                                      | <u>5,887</u>      | <u>(8,009)</u>  |
| Effect of exchange rate changes on cash  | 16                | 204             |
| Net increase (decrease) in cash and cash equivalents                                     | (2,224)           | 16,175          |
| Cash and cash equivalents at beginning of period   | 6,464             | 4,111           |
| Cash and cash equivalents at end of period   | <u>\$ 4,240</u>   | <u>\$20,286</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<br>Capital | Retained<br>Earnings | Unearned<br>Compensation | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total     | Comprehensive<br>Income |
|--|---------------------|--------|--------------------|----------------------|--------------------------|--|-----------|-------------------------|
|  | Number of<br>Shares | Amount |                    |                      |                          |  |           |                         |
| Balance at March 31, 2003                                  | 26,130,443          | \$ 3   | \$154,293          | \$29,853             | \$ (35)                  | \$(227)  | \$183,887 |                         |
| Exercise of stock options                                  | 84,360              |        | 560                |                      |                          |  | 560       |                         |
| Issuance of stock under<br>Employee Stock Purchase<br>Plan | 127,333             |        | 1,381              |                      |                          |  | 1,381     |                         |
| Forfeited unexercised options                              |                     |        |                    |                      |                          |  |           |                         |
| Amortization of stock based<br>compensation                |                     |        |                    |                      | 8                        |  | 8         |                         |
| Net income   |                     |        |                    | 9,354                |                          |  | 9,354     | 9,354                   |
| Foreign currency translation                               |                     |        |                    |                      |                          | 238  | 238       | 238                     |
| Comprehensive income                                       |                     |        |                    |                      |                          |  |           | \$9,592                 |
| Balance at January 2, 2004                                 | 26,342,136          | \$ 3   | \$156,234          | \$39,207             | \$ (27)                  | \$ 11  | \$195,428 |                         |

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 January 2, 2004, the condensed consolidated statements of operations for the three and nine months ended December 31, 2002 and January 2, 2004, the condensed consolidated statements of cash flows for the nine months ended December 31, 2002 and January 2, 2004, and the condensed consolidated statement of stockholders' equity for the nine months ended January 2, 2004 have been prepared by the management of ViaSat, Inc., and have not been audited. These financial statements have been prepared on the same basis as the audited consolidated financial statements for the year ended March 31, 2003 and, 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, 2003 included in our 2003 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.

We have adopted a 52- or 53-week fiscal year beginning with our fiscal year 2004. All references to a fiscal year refer to the fiscal year ending on the Friday closest to March 31 of the specified year. For example, references to fiscal year 2004 refer to the fiscal year ending on April 2, 2004. Our quarters for fiscal year 2004 end on July 4, 2003, October 3, 2003, January 2, 2004 and April 2, 2004.

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.

***Stock-based Compensation***

Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure an Amendment of FASB Statement No. 123," amends the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

At January 2, 2004, we had stock-based compensation plans from which incentive stock options may be granted to our key employees and non-qualified stock options may be granted to key employees, directors, officers, independent contractors, and consultants. We measure compensation expense for options issued to employees, directors and officers under those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees, and Related Interpretations." Generally, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

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

The estimated fair value of options is amortized to expense over the vesting period. We elect to use the disclosure only provisions of SFAS 123. Had compensation expense for employees, directors and officer stock options been determined based on the fair value of the options on the date of the grant, net income (loss) and net income (loss) per share would have resulted in the pro forma information presented below for the three and nine months ended December 31, 2002 and January 2, 2004:

|   | Three Months Ended                    |                 | Nine Months Ended                     |                 |
|---|---------------------------------------|-----------------|---------------------------------------|-----------------|
|   | December 31, 2002                     | January 2, 2004 | December 31, 2002                     | January 2, 2004 |
|   | (In thousands, except per share data) |                 | (In thousands, except per share data) |                 |
| Net income (loss) as reported   | \$(2,612)                             | \$ 7,089        | \$ (8,349)                            | \$ 9,354        |
| Stock based compensation included in net income (loss)                  | 78                                    | 15              | 129                                   | 8               |
| Stock based employee compensation expense under fair value based method | (3,452)                               | (2,151)         | (9,850)                               | (8,477)         |
| Pro forma net income (loss)   | \$(5,986)                             | \$ 4,953        | \$(18,070)                            | \$ 885          |
| Basic earnings (loss) per share   |                                       |                 |                                       |                 |
| As reported   | \$ (0.10)                             | \$ 0.27         | \$ (0.32)                             | \$ 0.36         |
| Pro forma   | \$ (0.23)                             | \$ 0.19         | \$ (0.70)                             | \$ 0.03         |
| Diluted earnings (loss) per share                                       |                                       |                 |                                       |                 |
| As reported   | \$ (0.10)                             | \$ 0.26         | \$ (0.32)                             | \$ 0.34         |
| Pro forma   | \$ (0.23)                             | \$ 0.19         | \$ (0.70)                             | \$ 0.03         |

These pro forma amounts may not be representative of future costs since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years.

#### **Recent Accounting Pronouncements**

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46") — "Consolidation of Variable Interest Entities," and a revised interpretation of FIN 46 (FIN 46-R) was issued in December 2003. FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. We do not have any variable interest entities created after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the FIN 46-R provisions are required to be adopted at the beginning of the first interim or annual period ending after March 15, 2004. Management has evaluated the impact of adopting this pronouncement as it relates to our investment in Immeon Networks, LLC ("Immeon"), and believes such investment will be required to be consolidated commencing in our fiscal period ending April 2, 2004. The effect of consolidating Immeon is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

#### **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 by and negotiations with U.S. Government representatives. These audits have been completed and agreed upon through fiscal year 2000. Contract revenues and accounts receivable are stated at amounts which are expected to be realized upon final settlement. While we believe that the results of such audits will not have a material effect on our financial position or results of operations, there can be no assurance that an adjustment will not be made and that, if made, any such adjustment will not have a material effect on our financial position, results of operations or cash flows.

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

**Note 3 – Earnings Per Share**

Potential common stock of 1,486,589 shares for the three months ended January 2, 2004 and 1,099,517 for the nine months ended January 2, 2004 respectively, were used to calculate diluted earnings per share. Potentially dilutive shares excluded from the calculation were 4,291,220 and 1,727,779 shares for the three months ended December 31, 2002 and January 2, 2004, respectively. Potentially dilutive shares excluded from the calculation were 4,291,220 and 1,994,909 shares for the nine months ended December 31, 2002 and January 2, 2004, respectively. Potential common stock is 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,<br>2003 | January 2,<br>2004 |
|--|-------------------|--------------------|
| Accounts receivable, net:                  |                   |                    |
| Billed                                     | \$ 41,724         | \$ 43,246          |
| Unbilled                                   | 39,911            | 46,519             |
| Allowance for doubtful accounts            | (673)             | (585)              |
|  | <u>\$ 80,962</u>  | <u>\$ 89,180</u>   |
| Inventory:                                 |                   |                    |
| Raw materials                              | \$ 15,083         | \$ 16,370          |
| Work in process                            | 2,323             | 3,087              |
| Finished goods                             | 12,352            | 7,752              |
|  | <u>\$ 29,758</u>  | <u>\$ 27,209</u>   |
| Prepaid expenses and other current assets: |                   |                    |
| Income taxes receivable                    | \$ 4,162          | \$ 3,861           |
| Prepaid expenses                           | 1,616             | 6,117              |
| Other                                      | 237               | 409                |
|  | <u>\$ 6,015</u>   | <u>\$ 10,387</u>   |
| 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              |
|  | <u>51,331</u>     | <u>51,331</u>      |
| Less accumulated amortization              | (15,857)          | (21,735)           |
|  | <u>\$ 35,474</u>  | <u>\$ 29,596</u>   |
| Property and equipment:                    |                   |                    |
| Machinery and equipment                    | \$ 32,567         | \$ 34,905          |
| Computer equipment and software            | 23,752            | 24,856             |
| Furniture and fixtures                     | 3,130             | 3,173              |
| Construction in progress                   | 5,225             | 8,468              |
|  | <u>64,674</u>     | <u>71,402</u>      |
| Less accumulated depreciation              | (31,065)          | (38,727)           |
|  | <u>\$ 33,609</u>  | <u>\$ 32,675</u>   |
| Other assets:                              |                   |                    |
| Capitalized software costs, net            | \$ 16,561         | \$ 14,685          |
| Deferred income taxes                      | 5,672             | 3,466              |
| Other                                      | 1,102             | 704                |
|  | <u>\$ 23,335</u>  | <u>\$ 18,855</u>   |
| Accrued liabilities:                       |                   |                    |
| Current portion of warranty reserve        | \$ 1,157          | \$ 1,832           |
| Accrued vacation                           | 3,539             | 3,753              |
| Accrued bonus                              | —                 | 3,434              |
| Accrued 401(k) matching contribution       | —                 | 1,972              |
| Collections in excess of revenues          | 11,646            | 13,758             |
| Other                                      | 2,694             | 4,507              |
|  | <u>\$ 19,036</u>  | <u>\$ 29,256</u>   |



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

**Note 5 – Accounting for Goodwill and Intangible Assets**

We account for our goodwill under SFAS No. 142. The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the business units that have goodwill assigned to them. We estimate the fair values of the business units using discounted cash flows. The cash flow forecasts are adjusted by an appropriate discount rate. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

We make assessments of impairment on an annual basis in the fourth quarter of our fiscal year or more frequently if specific events occur. In assessing the value of goodwill, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of the reporting units. If these estimates or their related assumptions change in the future, we may be required to record impairment charges that would negatively impact operating results.

The intangible assets are amortized using the straight-line method over their estimated useful lives of two to ten 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, non-compete agreements have useful lives of three to five years and other amortizable assets have several components with estimated useful lives of two to ten years.

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

|  | <u>Amortization</u> |
|--|---------------------|
| For the nine months ended January 2, 2004      | \$5,878             |
| Expected for the remainder of fiscal year 2004 | 1,964               |
| Expected for fiscal year 2005                  | 6,642               |
| Expected for fiscal year 2006                  | 6,048               |
| Expected for fiscal year 2007                  | 5,378               |
| Expected for fiscal year 2008                  | 4,508               |

**Note 6 — Notes Payable and Line of Credit**

On August 12, 2003, we executed an amendment to our Amended and Restated Revolving Loan Agreement with Union Bank of California and Comerica Bank, extending the maturity date from September 30, 2003 to September 30, 2004 and increasing the commitment from \$20 million to \$30 million. Under the revolving facility we have the option to borrow at the bank's prime rate or at LIBOR plus, in each case, an applicable margin based on the ratio of our total debt to EBITDA (income from operations plus depreciation and amortization). The revolving facility contains financial covenants that set maximum debt to EBITDA limits, minimum quarterly EBITDA limits, minimum quick ratio limit and a minimum tangible net worth limit. The revolving loan facility is collateralized by our cash, accounts receivable and inventory. At January 2, 2004, we had no outstanding borrowings under the revolving facility and amounts outstanding under standby letters of credit were \$6.2 million, leaving borrowing availability under the revolving facility of \$23.8 million. We were in compliance with our loan covenants at January 2, 2004.

**Note 7 — Product Warranty**

We provide limited warranties on most 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. The following table reflects the change in our warranty accrual during the three and nine month periods ended January 2, 2004 (in thousands).

|   | <u>For the three months<br/>ended January 2, 2004</u> | <u>For the nine months<br/>ended January 2, 2004</u> |
|---|---|--|
| Balance, beginning of period                            | \$3,564   | \$ 2,327   |
| Change in liability for warranties issued in period     | 633   | 3,252  |
| Settlements made (in cash or in kind) during the period | (454)   | (1,836)  |
| Balance, January 2, 2004                                | <u>\$3,743</u>  | <u>\$ 3,743</u>                                      |

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

**Note 8 — Contingencies**

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. However, there can be no assurance that our customers will not elect to terminate such contracts or seek liquidated damages or penalties from us in the future.

On October 23, 2002, ViaSat sent Scientific-Atlanta, Inc. a claim for indemnification under the terms of the asset purchase agreement related to the acquisition of Scientific-Atlanta's satellite networks business (the "Satellite Networks Business") in April 2000. On November 14, 2002, Scientific-Atlanta filed a complaint (United States District Court, Northern District of Georgia, Atlanta Division) for declaratory judgment seeking to resolve ViaSat's claim for indemnification through litigation. In response to Scientific-Atlanta's complaint, on January 15, 2003, ViaSat filed a formal claim against Scientific-Atlanta for, among other things, fraud, breach of warranty, contractual and equitable indemnification, and breach of the duty of good faith and fair dealing. In December 2003, ViaSat reached an agreement with Scientific-Atlanta ("SA Settlement"). Under the terms of the SA Settlement, Scientific-Atlanta paid ViaSat \$9.0 million in cash and the parties jointly dismissed the litigation concerning the acquisition. Neither party admitted liability in connection with the litigation, or in the agreement resolving it. As a result of the settlement, the Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended January 2, 2004 include a benefit to cost of revenues of \$3.2 million and to selling, general and administrative expenses of \$3.1 million.

On May 21, 2003, ViaSat filed a complaint against Xetron Corporation. The complaint alleged Xetron failed to deliver conforming radio frequency amplifiers (RFAs) for integration into ViaSat's Multifunctional Information Distribution System (MIDS) terminals. ViaSat contends that it is entitled to recover in excess of \$11 million in damages. On August 14, 2003, Xetron filed a counter-claim against ViaSat alleging ViaSat failed to make proper payments. Xetron claims that its damages total approximately \$8 million. ViaSat has an alternative supplier of RFAs, which has allowed ViaSat to meet its applicable customer contractual obligations and delivery schedules. ViaSat intends to vigorously pursue its claims and defend against Xetron's counter-claims.

**Note 9 — Immeon Networks, L.L.C.**

In January 2001, ViaSat and Loral Skynet formed Immeon, a joint venture between the parties. 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 venturer'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 December 31, 2002 and January 2, 2004 was \$463,000 and \$79,000, respectively, and \$1.6 million and \$160,000 for the nine months ended December 31, 2002 and January 2, 2004, respectively, and represent the substantial portion of the net losses of Immeon. 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 maintain an obligation to provide network operation, billing, general management and administrative services to Immeon and its customers through the end of its customer contracts in February 2005. Loral has formally indicated it plans to withdraw from the Immeon venture through Loral's pending bankruptcy. If Loral withdraws from Immeon through its bankruptcy, Loral will no longer have a continuing obligation to provide customer bandwidth at discounted rates. See Note 1 regarding FIN 46 and Immeon.

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

**Note 10 — Income Taxes**

In calculating the income tax benefit for the three and nine months ended December 31, 2002 and January 2, 2004 we applied a 40% tax rate to the income or loss before income 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 the income or loss before income taxes. Since the research and development tax credit is not variable to income, fluctuations in estimated annual income before income taxes can cause disproportionate changes in the tax provision (benefit).

**Note 11 — Segment Information**

Operating segments are determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. We are organized primarily on the basis of products with commercial and government (defense) communication applications. The nature of our products and their potential uses will occasionally create a situation where a commercially developed product will be sold to customers for government applications or when a product developed for the government is sold to customers for commercial applications. For segment reporting, the revenues and operating profits generated from these products are recorded in the segment of the segment's primary business. The following table summarizes revenues and operating profits by operating segment for the three and nine months ended December 31, 2002 and January 2, 2004. Certain corporate general and administrative costs and amortization of intangible assets 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 |                 | Nine months ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | December 31, 2002  | January 2, 2004 | December 31, 2002 | January 2, 2004 |
| Revenues  |                    |                 |                   |                 |
| Commercial  | \$25,769           | \$38,489        | \$ 71,341         | \$106,897       |
| Government  | 23,193             | 33,269          | 59,981            | 88,461          |
| Total revenues  | 48,962             | 71,758          | 131,322           | 195,358         |
| Operating profits (losses)  |                    |                 |                   |                 |
| Commercial  | (4,280)            | 7,804           | (18,267)          | 7,821           |
| Government  | 1,896              | 3,921           | 9,727             | 10,505          |
| Segment operating profit (loss) before corporate and amortization | (2,384)            | 11,725          | (8,540)           | 18,326          |
| Corporate   | 9                  | (76)            | 434               | (962)           |
| Amortization of intangibles                                       | (2,112)            | (1,959)         | (6,335)           | (5,878)         |
| Income (loss) from operations                                     | \$ (4,487)         | \$ 9,690        | \$ (14,441)       | \$ 11,486       |

The operating profits for the Commercial segment for the three-month and nine-month periods ended January 2, 2004 include a benefit of \$6.3 million related to the settlement with Scientific-Atlanta, Inc.

Revenue information by geographic area for the three and nine month periods ended December 31, 2002 and January 2, 2004 is as follows (in thousands):

|               | Three months ended |                 | Nine months ended |                 |
|---------------|--------------------|-----------------|-------------------|-----------------|
|               | December 31, 2002  | January 2, 2004 | December 31, 2002 | January 2, 2004 |
| North America | \$39,976           | \$58,917        | \$102,937         | \$161,671       |
| Europe        | 6,155              | 9,080           | 16,732            | 18,226          |
| Asia Pacific  | 2,326              | 2,954           | 10,025            | 14,504          |
| Latin America | 505                | 807             | 1,628             | 957             |
|               | \$48,962           | \$71,758        | \$131,322         | \$195,358       |

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

The net book value of long-lived assets located outside the United States was \$316,000 at December 31, 2002 and \$83,000 at January 2, 2004.



## **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, 2003, 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 is a leading provider of advanced digital satellite communications and other wireless networking and signal processing equipment and services to the defense and commercial markets. Although our company's initial focus was primarily on developing satellite communication and simulation equipment for the U.S. government, we have successfully diversified into other related defense as well as commercial markets. During the period from April 2000 to January 2002, we acquired (1) the Satellite Networks Business from Scientific-Atlanta, Inc. (SA), (2) the Comsat Laboratories business from Lockheed Martin Global Telecommunications, LLC (LMGT), and (3) U.S. Monolithics, LLC (USM). These acquisitions further enhanced our strategic positioning in the commercial satellite communication market as well as significantly expanded our intellectual property portfolio. As a result of this diversification, we have transitioned from a primarily defense-oriented company to a company with near equal amounts of government and commercial business. We believe that this diversification, in combination with our unique ability to effectively apply technologies between government and commercial markets, provides us with a strong foundation to sustain and enhance our leadership in advanced communications and networking technologies.

### **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 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.

Approximately 97% of our revenues in fiscal year 2002, 95% of our revenues in fiscal year 2003 and 88% of our revenues in the first nine months of fiscal year 2004 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 provide for anticipated losses on contracts by a charge to income during the period in which they are first identified.

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### *Capitalized software development costs*

Costs of developing software for sale are charged to research and development expense when incurred, until technological feasibility has been established. 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 not to exceed five years. The determination of net realizable value involves judgment 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 judgments 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.

We capitalized costs related to software developed for resale of \$1.6 million and \$5.2 million for the three and nine month periods ended December 31, 2002, respectively. We did not capitalize costs related to software developed for resale in the three or nine month periods ended January 2, 2004. Amortization expense related to software development costs was \$290,000 and \$968,000 for the three months ended December 31, 2002 and January 2, 2004, respectively, and \$820,000 and \$1.9 million for the nine months ended December 31, 2002 and January 2, 2004, 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 statement of operations.

### *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 receivables balance was \$89.2 million, net of allowance for doubtful accounts of \$585,000 as of January 2, 2004.

### *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.

### *Goodwill and other intangible assets*

We account for our goodwill under SFAS No. 142. The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the business units that have goodwill assigned to them. We estimate the fair values of the business units using discounted cash flows. The cash flow forecasts are adjusted by an appropriate discount rate. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

We will make assessments of impairment on an annual basis in the fourth quarter of our fiscal year or more frequently if specific events occur. In assessing the value of goodwill, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the reporting units. If these estimates or their related assumptions change in the future, we may be required to record impairment charges that would negatively impact operating results.

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### *Income tax valuation allowance*

On a quarterly basis, management evaluates the realizability of our deferred tax assets and assesses the need for a valuation allowance. Realization of our net deferred tax assets is dependent on our ability to generate sufficient future income. We believe that it is more likely than not that our net deferred tax assets will be realized based on forecasted income. The amount of the net deferred tax assets actually realized could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. We have incurred losses from operations over several quarters in the past. If our operating results do not continue to improve in the near term and if the outlook were to be unclear we will be required to establish a valuation allowance against all of our net deferred tax assets based upon applicable accounting criteria. To the extent we establish a valuation allowance, an expense will be recorded within the provision for income taxes line in the Statement of Operations.

### **Results of Operations**

The following table presents, as a percentage of total revenues, income statement data for the periods indicated.

|                                      | Three Months Ended |                 | Nine Months Ended |                 |
|--------------------------------------|--------------------|-----------------|-------------------|-----------------|
|                                      | December 31, 2002  | January 2, 2004 | December 31, 2002 | January 2, 2004 |
| Revenues                             | 100.0%             | 100.0%          | 100.0%            | 100.0%          |
| Cost of revenues                     | 81.1               | 72.1            | 76.9              | 73.0            |
| Gross profit                         | 18.9               | 27.9            | 23.1              | 27.0            |
| Operating expenses:                  |                    |                 |                   |                 |
| Selling, general and administrative  | 18.6               | 8.9             | 20.4              | 14.1            |
| Independent research and development | 5.2                | 2.8             | 8.9               | 4.0             |
| Amortization of intangible assets    | 4.3                | 2.7             | 4.8               | 3.0             |
| Income (loss) from operations        | (9.2)              | 13.5            | (11.0)            | 5.9             |
| Income (loss) before income taxes    | (10.8)             | 13.3            | (12.7)            | 5.6             |
| Net income (loss)                    | (5.3)              | 9.9             | (6.4)             | 4.8             |

The Results of Operations for the three-month and nine-month periods ended January 2, 2004 include a benefit to Cost of revenues of \$3.2 million and to Selling, general and administrative expenses of \$3.1 million relating to the SA settlement.

#### **Three Months Ended December 31, 2002 vs. Three Months Ended January 2, 2004**

*Revenues.* Revenues increased 46.5% from \$49.0 million for the three months ended December 31, 2002 to \$71.8 million for the three months ended January 2, 2004. This increase resulted from the over \$330 million in net contract awards received over the twelve months ended January 2, 2004 and the conversion of a portion of these awards to revenues. This compares with net contract awards received of \$224 million for the twelve months ended December 31, 2002. Sales were aided by growth in consumer and airborne broadband development and production, VSAT product sales, government information security development and an increase in sales of large antenna systems.

Revenues in the government segment increased 43.5% from \$23.2 million for the three months ended December 31, 2002 to \$33.3 million for the three months ended January 2, 2004. The increase was primarily driven by increased production of our MIDS tactical data links, data controllers and UHF satcom modems and increased customer funded development contracts in our information security and government broadband business areas.

Revenues in the commercial segment increased 49.2% from \$25.8 million for the three months ended December 31, 2002 to \$38.5 million for the three months ended January 2, 2004. The increase was principally from growth in VSAT product sales, customer funded development for mobile products, consumer broadband development and production, and large antenna system sales.

*Gross Profit.* Gross profit increased 117% from \$9.2 million (18.9% of revenues) for the three months ended December 31, 2002 to \$20.0 million (27.9% of revenues) for the three months ended January 2, 2004. Included in gross profit for the three months ended January 2, 2004, is a \$3.2 million benefit from the SA Settlement. Without

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the SA Settlement, gross profit would have been \$16.8 million (23.4% of revenues). This gross profit percentage is below expectations mostly due to lower margin development programs working their way through backlog and some non-recurring design costs for MIDS.

*Selling, General and Administrative Expenses.* Selling, general and administrative (“SG&A”) expenses decreased 29.7% from \$9.1 million (18.6% of revenues) for the three months ended December 31, 2002 to \$6.4 million (8.9% of revenues) for the three months ended January 2, 2004. Included in SG&A for the three months ended January 2, 2004, are a \$3.1 million benefit from the SA Settlement and \$409,000 in sales proceeds of Orbital Sciences Corp stock received from the bankruptcy liquidation of ORBCOMM (ViaSat is an unsecured creditor in the ORBCOMM bankruptcy and received 44,673 shares of Orbital Sciences Corp stock from the bankruptcy liquidation proceedings of ORBCOMM). Without the SA Settlement and the proceeds from the ORBCOMM bankruptcy liquidation, SG&A expenses would have been \$9.9 million (13.8% of revenues). The SG&A expenses (excluding the SA settlement and the ORBCOMM bankruptcy liquidation) increased principally from selling expenses in the VSAT product area, which resulted from increased sales, and bonus and 401(k) accruals, partially offset by lower legal costs. The discretionary bonus and 401(k) accruals are consistent with the company’s performance measured incentives. 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. Some SG&A 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 decreased 20.0% from \$2.5 million (5.2% of revenues) for the three months ended December 31, 2002, to \$2.0 million (2.8% of revenues) for the three months ended January 2, 2004. The decrease reflects the reduced need for company funded development projects due to the increase in customer funded development projects received over the past twelve months.

*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 ended 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 December 31, 2002 and January 2, 2004 (in thousands).

|                             | Amortization for the three months ended |                 |
|-----------------------------|---|-----------------|
|                             | December 31, 2002                       | January 2, 2004 |
| Existing technology         | \$ 950                                  | \$ 950          |
| Contracts and relationships | 276                                     | 268             |
| Non-compete agreements      | 575                                     | 576             |
| Other amortizable assets    | 311                                     | 165             |
| Totals                      | \$2,112                                 | \$1,959         |

*Interest Expense.* Interest expense decreased from \$324,000 for the three months ended December 31, 2002 to \$57,000 for the three months ended January 2, 2004. Interest expense relates to short-term borrowings under our line of credit to cover working capital requirements. The decrease in interest expense was from lower loan costs and lower outstanding borrowings and interest rates. Outstanding borrowings under our line of credit were \$14.4 million at December 31, 2002 and zero at January 2, 2004.

*Interest Income.* Interest income increased from \$3,000 for the three months ended December 31, 2002 to \$5,000 for the three months ended January 2, 2004.

*Equity in Loss of Joint Venture.* Equity in loss of joint venture decreased from \$463,000 for the three months ended December 31, 2002 to \$79,000 for the three months ended January 2, 2004. This decrease was related to an increase in revenues and lower costs for Immeon.

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*Provision (Benefit) for Income Taxes.* Our effective income tax rate changed from a benefit of 50.5% for the three months ended December 31, 2002 to a provision of 25.5% for the three months ended January 2, 2004. In calculating the tax provision (benefit) for the three months ended December 31, 2002 and January 2, 2004 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.

### **Nine Months Ended December 31, 2002 vs. Nine Months Ended January 2, 2004**

*Revenues.* Revenues increased 48.8% from \$131.3 million for the nine months ended December 31, 2002 to \$195.4 million for the nine months ended January 2, 2004. This increase resulted from the over \$330 million in net contract awards received over the twelve months ended January 2, 2004 and the conversion of a portion of these awards to revenue. This compares with net contract awards received of \$224 million for the twelve months ended December 31, 2002. Sales were aided by growth in consumer and airborne broadband development and production, VSAT product sales, government information security development and an increase in sales of large antenna systems.

Revenues in the government segment increased 47.5% from \$60.0 million for the nine months ended December 31, 2002 to \$88.5 million for the nine months ended January 2, 2004. The increase was primarily driven by increased production of our UHF satcom modems and increased customer funded development contracts in our information security and government broadband business areas.

Revenues in the commercial segment increased 49.9% from \$71.3 million for the nine months ended December 31, 2002 to \$106.9 million for the nine months ended January 2, 2004. The increase was principally from growth in VSAT product sales, customer funded development for mobile products, consumer broadband development and production, and large antenna system sales.

*Gross Profit.* Gross profit increased 74.3% from \$30.3 million (23.1% of revenues) for the nine months ended December 31, 2002 to \$52.8 million (27.0% of revenues) for the nine months ended January 2, 2004. Included in gross profit for the nine months ended January 2, 2004, is \$3.2 million benefit from the SA Settlement. Without the SA Settlement gross profit would have been \$49.6 million (25.4% of revenues). Gross profit also increased in the first nine months of fiscal year 2004 over the first nine months of fiscal year 2003 due to the 48.8% increase in revenues for the periods. Gross profit, excluding the effects of the SA Settlement, improved by two percentage points for the nine months ended January 2, 2004 versus the nine months ended December 31, 2002. This is a reflection of the operation improvements we have made over this time, primarily increased outsourcing of manufacturing and fewer development contract overruns.

*Selling, General and Administrative Expenses.* SG&A expenses increased 3.0% from \$26.7 million (20.4% of revenues) for the nine months ended December 31, 2002 to \$27.5 million (14.1% of revenues) for the nine months ended January 2, 2004. Included in SG&A for the nine months ended January 2, 2004, are \$3.1 million from the SA Settlement and \$409,000 in proceeds from the bankruptcy liquidation of ORBCOMM. Without the SA Settlement and the proceeds from the ORBCOMM bankruptcy liquidation, SG&A expenses would have been \$31.0 million (15.9% of revenues). The SG&A expenses (excluding the SA Settlement and the ORBCOMM bankruptcy liquidation) increased principally from selling expenses in the VSAT product area, which resulted from increased sales, and bonus and 401(k) accruals.

*Independent Research and Development.* IR&D expenses decreased 32.5% from \$11.7 million (8.9% of revenues) for the nine months ended December 31, 2002, to \$7.9 million (4.0% of revenues) for the nine months ended January 2, 2004. The decrease reflects the reduced need for company funded development projects due to the increase in customer funded development received over the past twelve months.

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*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 ended 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 nine month periods ended December 31, 2002 and January 2, 2004 (in thousands).

|                             | Amortization for the nine months ended |                 |
|-----------------------------|--|-----------------|
|                             | December 31, 2002                      | January 2, 2004 |
| Existing technology         | \$2,850                                | \$2,850         |
| Contracts and relationships | 827                                    | 804             |
| Non-compete agreements      | 1,725                                  | 1,728           |
| Other amortizable assets    | 933                                    | 496             |
| Totals                      | \$6,335                                | \$5,878         |

*Interest Expense.* Interest expense decreased from \$633,000 for the nine months ended December 31, 2002 to \$327,000 for the nine months ended January 2, 2004. Interest expense relates to short-term borrowings under our line of credit to cover working capital requirements. The decrease in interest expense was from lower loan costs and from lower outstanding borrowings and interest rates. Outstanding borrowings under our line of credit were \$14.4 million at December 31, 2002 and zero at January 2, 2004.

*Interest Income.* Interest income decreased from \$33,000 for the nine months ended December 31, 2002 to \$9,000 for the nine months ended January 2, 2004. This decrease resulted from lower average invested cash balances and lower yields.

*Equity in Loss of Joint Venture.* Equity in loss of joint venture decreased from \$1.6 million for the nine months ended December 31, 2002 to \$160,000 for the nine months ended January 2, 2004. This decrease was related to an increase in revenues and lower costs for Immeon.

*Provision (Benefit) for Income Taxes.* Our effective income tax rate changed from a benefit of 50.0% for the nine months ended December 31, 2002 to a provision of 13.8% for the nine months ended January 2, 2004. In calculating the tax benefit for the nine months ended December 31, 2002 and January 2, 2004, 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.

## **Backlog**

At January 2, 2004 we had firm backlog of \$291.6 million of which \$258.3 million was funded. The firm backlog of \$291.6 million does not include contract options of \$42.4 million. Of the \$291.6 million in firm backlog, approximately \$59.6 million is expected to be delivered during the remaining three months of fiscal year 2004, and the balance is expected to be delivered in fiscal year 2005 and thereafter. At March 31, 2003, we had firm backlog of \$213.6 million, of which \$179.6 million was funded, not including options of \$44.9 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 contracts can be terminated at the convenience of the customer since orders are often made substantially in advance of delivery, and our contracts typically provide that orders may be terminated with limited or no penalties. In addition, contracts may present 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 contacts.

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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 Pronouncements**

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46-R”) — “*Consolidation of Variable Interest Entities*,” and a revised interpretation of FIN 46 (FIN 46-R) was issued in December 2003. FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. We do not have any variable interest entities created after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the FIN 46-R provisions are required to be adopted at the beginning of the first interim or annual period ending after March 15, 2004. Management has evaluated the impact of adopting this pronouncement as it relates to our investment in Immeon Networks, LLC (“Immeon”), and believes such investment will be required to be consolidated commencing in our fiscal period ending April 2, 2004. The effect of consolidating Immeon is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

### **Liquidity and Capital Resources**

Cash and cash equivalents were \$20.3 million at January 2, 2004, an increase of \$16.2 million from April 1, 2003. The increase was primarily the result of \$31.0 million in cash from operating activities and \$1.9 million in net proceeds from the issuance of common stock under our stock option and employee stock purchase plans, partially offset by \$6.9 million in purchases of equipment and a \$10.0 million in repayment of our line of credit.

Cash flow from operating activities of \$31.0 million for the first nine months of fiscal 2004 did include \$9.0 million received in the SA Settlement (see note 8 to our condensed consolidated financial statements). Accounts receivable increased 10.2% in the first nine months of fiscal 2004 due to an increase in revenues, partially offset by a decrease in days sales outstanding from 137 days at March 31, 2003 to 113 days at January 2, 2004. Accrued liabilities also increased in the first nine months of fiscal 2004, primarily due to an increase customer payments received in excess of revenue recognized.

At January 2, 2004 we had \$20.4 million in cash, cash equivalents and short-term investments and \$97.9 million in working capital. We had no outstanding borrowings under our line of credit and \$6.2 million in outstanding standby letters of credit at January 2, 2004. Borrowing availability under the revolving loan facility was \$23.8 million at January 2, 2004.

On August 12, 2003, we executed an amendment to our Amended and Restated Revolving Loan Agreement with Union Bank of California and Comerica Bank, extending the maturity date from September 30, 2003 to September 30, 2004 and increasing the commitment from \$20 million to \$30 million. Under the revolving loan facility we have the option to borrow at the bank’s prime rate or at LIBOR plus, in each case, an applicable margin based on the ratio of our total debt to EBITDA (income from operations plus depreciation and amortization). The revolving loan facility contains financial covenants that set maximum debt to EBITDA limits, minimum quarterly EBITDA limits,

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minimum quick ratio limit and a minimum tangible net worth limit. The revolving loan facility is collateralized by our cash, accounts receivable and inventory. We were in compliance with our loan covenants at January 2, 2004.

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, depository 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.

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):

|                           | Total    | For the balance of<br>fiscal year 2004 | For the fiscal years |           |            |
|---------------------------|----------|--|----------------------|-----------|------------|
|                           |          |  | 2005-2006            | 2007-2008 | After 2008 |
| Operating Leases          | \$20,816 | \$1,595                                | \$ 9,755             | \$5,183   | \$4,283    |
| Capital leases            | 3        | 3                                      | —                    | —         | —          |
| Lines of credit           | —        | —                                      | —                    | —         | —          |
| Standby letters of credit | 6,240    | 1,258                                  | 4,982                | —         | —          |
| Total                     | \$27,059 | \$2,856                                | \$14,737             | \$5,183   | \$4,283    |

In addition, we have a services agreement with Immeon to provide network operation, billing, general management and administrative services to Immeon and its customers through the end of its customer contracts in February 2005. See Note 9 to our condensed consolidated financial statements for a more detailed explanation of Immeon.

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.



***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 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 32% of our revenues in fiscal year 2002, 45% of our revenues in fiscal year 2003 and 45% of our revenues for the first nine months of fiscal year 2004 were derived from U.S. government applications. Although 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,
- the ability of competitors to protest contractual awards,
- 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 recent global economic slowdown 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 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.

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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 revenues 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 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.

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.

### ***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 10% of our revenues in fiscal year 2002, 15% of our revenues in fiscal year 2003 and 13% of our revenues in the first nine months of fiscal year 2004. Our five largest contracts generated approximately 33% of our revenues in fiscal year 2002 and 29% of our revenues in fiscal year 2003. In addition, if our consumer broadband products are successful, a few of our customers could represent a significant portion of our revenues in future periods. 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.

### ***We Depend Heavily on the VSAT Market***

We derived approximately 31% of our revenues in fiscal year 2002, 34% of our revenues in fiscal year 2003 and 28% of our revenues in the first nine months of fiscal year 2004 from sales of VSAT communications networks. 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 line of credit 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 line of credit, repayment of our outstanding indebtedness may be accelerated. This indebtedness, among other things, restricts our ability to do the following:

- incur additional indebtedness,
- create liens on our assets,

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- 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 (income from operations plus 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 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 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.

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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 sufficient 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.

### ***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 38% of our revenues in fiscal year 2002 and 40% of our revenues in fiscal year 2003 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 97% of our revenues in fiscal year 2002, 95% of our revenues in fiscal year 2003 and 88% of our revenues in the first nine months of fiscal year 2004 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 Maintain a Focus on 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 \$9.4 million in fiscal year 2002, \$16.0 million in fiscal year 2003 and \$7.9 million in the first nine months of fiscal year 2004 in research and development activities. We expect to continue to

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spend discretionary funds on research and development in the near future. The amount of funds spent on research and development projects is dependent on the amount and mix of customer funded development, the types of technology being developed and the affordability of the technology being developed. 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.

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. Also, we cannot assure you that our issued patents will remain valid or that any pending patent applications will be issued. 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.

***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 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 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, teaming agreements, 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 our markets do not evolve as anticipated and 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,

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- the risks of entering markets in which we have less experience, and
- the risks of potential disputes concerning indemnities and other obligations that could result in substantial costs and further divert management's attention and resources.

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.

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

Approximately 28% of our revenues in fiscal year 2002, 27% of our revenues in fiscal year 2003 and 18% of our revenues in the first nine months of fiscal year 2004 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 anticipate engaging in material 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 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. Further, as our consumer products business grows, we expect our product liability claims to materially increase. 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 or obsolescence,
- 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.



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

As of January 26, 2004, 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 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.

### ***Compliance With Changing Regulation of Corporate Governance and Public Disclosure May Result in Additional Expenses***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission regulations and Nasdaq Stock Market rules, are creating uncertainty for companies such as ours. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities, which could harm our operating results and business prospects.

### ***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,” “could,” “should,” “may,” “will” 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 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.

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 as of the end of the period covered by this Quarterly Report. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Disclosure Committee concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

During the period covered by this Quarterly Report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

A review of our current litigation is disclosed in the Notes to Condensed Consolidated Financial Statements. See “Notes to Condensed Consolidated Financial Statements - Note 8 - Contingencies.” We are also engaged in other legal actions arising in the ordinary course of our business and believe that the ultimate outcome of these actions will not have a material adverse effect on our results of operations, liquidity or financial position.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits:

31.1 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

On December 19, 2003, we filed a current report on Form 8-K, reporting under Item 5 that we had reached an agreement with Scientific-Atlanta, Inc. relating to the indemnification for costs claimed by us to have been incurred for customer and contract obligations and assets acquired in connection with our acquisition of Scientific-Atlanta’s satellite networks business in April 2000.

**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.

February 2, 2004

/s/ Mark D. Dankberg

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

/s/ Ronald G. Wangerin

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

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2004

/s/ MARK D. DANKBERG  
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Mark D. Dankberg  
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 2, 2004

/s/ RONALD G. WANGERIN  
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Ronald G. Wangerin  
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ViaSat, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(a) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended January 2, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 2, 2004

/s/ MARK D. DANKBERG

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Mark D. Dankberg  
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of ViaSat, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(a) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended January 2, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 2, 2004

/s/ RONALD G. WANGERIN

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Ronald G. Wangerin  
Chief Financial Officer

The foregoing certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.