# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended December 31, 2004.**

**OR**

o **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**<br>**(State or other jurisdiction of incorporation or organization)** | **33-0174996**<br>**(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 o

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

The number of shares outstanding of the registrant's Common Stock, $.0001 par value, as of February 2, 2005 was 26,845,707.

**VIASAT, INC.**

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**PART I Financial Information**

**Item 1.** ***Financial Statements***

**VIASAT, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED)**
**(In thousands)**

| | December 31, 2004 | April 2, 2004 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 8,855 | $ 18,510 |
| Short-term investments | 161 | 160 |
| Accounts receivable, net | 138,356 | 110,766 |
| Inventories | 35,835 | 30,357 |
| Deferred income taxes | 5,996 | 5,487 |
| Prepaid expenses and other current assets | 12,927 | 9,251 |
| Total current assets | 202,130 | 174,531 |
| Goodwill | 19,492 | 19,492 |
| Other intangible assets, net | 22,502 | 27,632 |
| Property and equipment, net | 33,334 | 32,052 |
| Other assets | 16,516 | 18,975 |
| Total assets | $ 293,974 | $ 272,682 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 40,144 | $ 32,635 |
| Accrued liabilities | 29,832 | 34,050 |
| Total current liabilities | 69,976 | 66,685 |
| Other liabilities | 3,834 | 2,944 |
| Total liabilities | 73,810 | 69,629 |
| Commitments and contingencies (Note 8) | | |
| Minority interest in consolidated subsidiary | 676 | 578 |
| Stockholders' equity: | | |
| Common stock | 3 | 3 |
| Paid in capital | 163,633 | 159,323 |
| Retained earnings | 55,570 | 43,021 |
| Accumulated other comprehensive income | 282 | 128 |
| Total stockholders' equity | 219,488 | 202,475 |
| Total liabilities and stockholders' equity | $ 293,974 | $ 272,682 |

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)
(In thousands, except per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 31, 2004 | January 2, 2004 | December 31, 2004 | January 2, 2004 |
| Revenues | $ 88,187 | $ 71,758 | $ 255,000 | $ 195,358 |
| Cost of revenues | 68,472 | 51,836 | 194,056 | 142,686 |
| Gross profit | 19,715 | 19,922 | 60,944 | 52,672 |
| Operating expenses: | | | | |
| Selling, general and administrative | 11,395 | 6,389 | 34,440 | 27,572 |
| Independent research and development | 1,941 | 1,963 | 5,360 | 7,896 |
| Amortization of intangible assets | 1,512 | 1,959 | 5,130 | 5,878 |
| Income from operations | 4,867 | 9,611 | 16,014 | 11,326 |
| Other income (expense): | | | | |
| Interest income | — | 5 | 22 | 9 |
| Interest expense | (32) | (57) | (91) | (327) |
| Income before income taxes | 4,835 | 9,559 | 15,945 | 11,008 |
| Provision (benefit) for income taxes | (408) | 2,453 | 3,305 | 1,565 |
| Minority interest in net earnings of subsidiary, net of taxes | 2 | 17 | 91 | 89 |
| Net income | $ 5,241 | $ 7,089 | $ 12,549 | $ 9,354 |
| Basic net income per share | $ .20 | $ .27 | $ .47 | $ .36 |
| Diluted net income per share | $ .19 | $ .26 | $ .45 | $ .34 |
| Shares used in basic net income per share computation | 26,775 | 26,262 | 26,719 | 26,211 |
| Shares used in diluted net income per share computation | 28,104 | 27,748 | 28,138 | 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, 2004 | January 2, 2004 |
| Cash flows from operating activities: | | |
| Net income | $ 12,549 | $ 9,354 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation | 7,569 | 7,831 |
| Amortization of intangible assets and software | 7,746 | 7,754 |
| Deferred income taxes | (171) | 375 |
| Minority interest in consolidated subsidiary | 98 | 92 |
| Non-cash compensation | — | 8 |
| Tax benefit from exercise of stock options | 816 | — |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: | | |
| Accounts receivable, net | (27,571) | (8,029) |
| Inventories | (5,468) | 2,939 |
| Other assets | (4,171) | (3,955) |
| Accounts payable | 7,506 | 4,103 |
| Accrued liabilities | (4,220) | 10,238 |
| Other liabilities | 914 | 162 |
| Net cash (used in) provided by operating activities | (4,403) | 30,872 |
| Cash flows from investing activities: | | |
| Purchases of short-term investments, net | (1) | (2) |
| Purchases of property and equipment | (8,851) | (6,890) |
| Net cash used in investing activities | (8,852) | (6,892) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 9,000 | 4,000 |
| Repayment of line of credit | (9,000) | (13,950) |
| Proceeds from issuance of common stock, net of issuance costs | 3,494 | 1,941 |
| Net cash provided by (used in) financing activities. | 3,494 | (8,009) |
| Effect of exchange rate changes on cash | 106 | 204 |
| Net (decrease) increase in cash and cash equivalents | (9,655) | 16,175 |
| Cash and cash equivalents at beginning of period | 18,510 | 4,111 |
| Cash and cash equivalents at end of period | $ 8,855 | $ 20,286 |

See accompanying notes to condensed consolidated financial statements.

## VIASAT, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED) (In thousands, except share data)

| | Common Stock | | | | Accumulated Other | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Paid in Capital | Retained Earnings | Comprehensive Income | Total | Comprehensive Income |
| Balance at April 2, 2004 | 26,540,159 | $ 3 | $ 159,323 | $ 43,021 | $ 128 | $ 202,475 | |
| Exercise of stock options | 207,718 | | 1,823 | | | 1,823 | |
| Issuance of stock under Employee Stock Purchase Plan | 91,647 | | 1,671 | | | 1,671 | |
| Tax benefit from exercise of stock options | | | 816 | | | 816 | |
| Net income | | | | 12,549 | | 12,549 | $ 12,549 |
| Foreign currency translation | | | | | 154 | 154 | 154 |
| Comprehensive income | | | | | | | $ 12,703 |
| Balance at December 31, 2004 | 26,839,524 | $ 3 | $ 163,633 | $ 55,570 | $ 282 | $ 219,488 | |

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 at December 31, 2004, the condensed consolidated statements of operations for the three and nine months ended December 31, 2004 and January 2, 2004, the condensed consolidated statements of cash flows for the nine months ended December 31, 2004 and January 2, 2004, and the condensed consolidated statement of stockholders' equity for the nine months ended December 31, 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 April 2, 2004 and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement 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 April 2, 2004 included in our 2004 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.

Our fiscal year is the 52 or 53 weeks ending on the Friday closest to March 31 of the specified year. For example, references to fiscal year 2005 refer to the fiscal year ending on April 1, 2005. Our quarters for fiscal year 2005 end on July 2, 2004, October 1, 2004, December 31, 2004 and April 1, 2005.

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

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

***Derivatives***

We enter into foreign currency forward and option contracts to hedge certain forecasted foreign currency transactions. Gains and losses arising from foreign currency forward and option contracts not designated as hedging instruments are recorded in investment income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts that are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as gains (losses) on derivative instruments until the underlying transaction affects our earnings. The fair value of our foreign currency forward contracts was insignificant at December 31, 2004. We had $2.0 million of notional amount of foreign currency options outstanding at December 31, 2004. We had no foreign currency forward or option contracts outstanding at April 2, 2004.

***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 December 31, 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. Approximately 80% of grants outstanding at December 31, 2004 are incentive stock options. We measure compensation expense for options issued to employees,

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

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.

Under SFAS 123 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 officers stock options been determined based on the fair value of the options on the date of the grant, net income and net income per share would have resulted in the pro forma information presented below for the three and nine months ended December 31, 2004 and January 2, 2004:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | December 31, 2004 | January 2, 2004 | December 31, 2004 | January 2, 2004 |
| | (In thousands, except per share data) | | (In thousands, except per share data) | |
| Net income as reported | $ 5,241 | $ 7,089 | $ 12,549 | $ 9,354 |
| Stock based compensation included in net income | — | 15 | — | 8 |
| Stock based employee compensation expense under fair value based method | (2,491) | (2,151) | (6,359) | (8,477) |
| Pro forma net income | $ 2,750 | $ 4,953 | $ 6,190 | $ 885 |
| Basic earnings per share | | | | |
| As reported | $ 0.20 | $ 0.27 | $ 0.47 | $ 0.36 |
| Pro forma | $ 0.10 | $ 0.19 | $ 0.23 | $ 0.03 |
| Diluted earnings per share | | | | |
| As reported | $ 0.19 | $ 0.26 | $ 0.45 | $ 0.34 |
| Pro forma | $ 0.10 | $ 0.18 | $ 0.22 | $ 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.

***Future Accounting Requirements***

In December 2004, the Financial Accounting Standards Board (“FASB”) revised SFAS 123, “Share-Based Payment” (“SFAS 123R”), which requires companies to expense the estimated fair value of employee stock options and similar awards. The accounting provisions of SFAS 123R will be effective for the second quarter of fiscal 2006.

We will adopt the provisions of SFAS 123R and plan to use the modified prospective transition method. Under the modified prospective transition method, SFAS 123R, which provides certain changes to the method for valuing stock-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123 (See Stock-based Compensation in Note 1). At December 31, 2004, unamortized compensation expense, as determined in accordance with SFAS 123, that we expect to record during the second quarter of fiscal 2006 was approximately $2.4 million before income taxes. We will incur additional expense during the second quarter of fiscal 2006 related to new awards granted during the last three months of fiscal 2005 and the first three months of fiscal 2006 that cannot yet be quantified. We are in the process of determining which measurement model to value stock-based compensation as prescribed in SFAS 123R will be applied to valuing stock-based awards granted after the effective date and the impact the recognition of compensation expense related to such awards will have on the financial statements.

**Note 2 — Revenue Recognition**

Approximately 72% of our revenues in the nine months ended December 31, 2005 are recognized as costs are incurred 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.

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

We also have contracts and purchase orders where revenue is recorded on delivery of products in accordance with SAB 104. In this situation, contracts and customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

Contract costs on U.S. government contracts, including indirect costs, are subject to audit and negotiations with U.S. government representatives. These audits have been completed and agreed upon through fiscal year 2001. Contract revenues and accounts receivable are stated at amounts which are expected to be realized upon final settlement.

**Note 3 — Earnings Per Share**

Potential common stock of 1,329,354 and 1,486,589 shares for the three months ended December 31, 2004 and January 2, 2004, respectively, and 1,418,543 and 1,099,517 shares for the nine months ended December 31, 2004 and January 2, 2004, respectively, were included in the calculation of diluted earnings per share. Antidilutive shares excluded from the calculation were 1,780,205 and 1,727,779 shares for the three months ended December 31, 2004 and January 2, 2004, respectively, and 1,518,872 and 1,994,909 shares for the nine months ended December 31, 2004 and January 2, 2004, respectively. Potential common stock is primarily comprised of options granted under our stock option plans.

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

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

| | December 31, 2004 | April 2, 2004 |
|---|---|---|
| Accounts receivable, net: | | |
| Billed | $ 54,825 | $ 53,539 |
| Unbilled | 83,828 | 57,606 |
| Allowance for doubtful accounts | (297) | (379) |
| | $ 138,356 | $ 110,766 |
| Inventories: | | |
| Raw materials | $ 18,160 | $ 17,299 |
| Work in process | 6,860 | 4,757 |
| Finished goods | 10,815 | 8,301 |
| | $ 35,835 | $ 30,357 |
| Prepaid expenses and other current assets: | | |
| Income taxes receivable | $ 3,740 | $ 3,130 |
| Prepaid expenses | 8,028 | 5,126 |
| Other | 1,159 | 995 |
| | $ 12,927 | $ 9,251 |
| Other intangible assets, net: | | |
| Technology | $ 26,770 | $ 26,770 |
| Contracts and relationships | 9,736 | 9,736 |
| Non-compete agreement | 7,950 | 7,950 |
| Other intangibles | 6,875 | 6,875 |
| | 51,331 | 51,331 |
| Less accumulated amortization | (28,829) | (23,699) |
| | $ 22,502 | $ 27,632 |
| Property and equipment, net: | | |
| Machinery and equipment | $ 39,968 | $ 35,628 |
| Computer equipment and software | 28,177 | 26,347 |
| Furniture and fixtures | 3,499 | 3,313 |
| Construction in progress | 7,107 | 4,902 |
| | 78,751 | 70,190 |
| Less accumulated depreciation | (45,417) | (38,138) |
| | $ 33,334 | $ 32,052 |
| Other assets: | | |
| Capitalized software costs, net | $ 11,155 | $ 13,771 |
| Deferred income taxes | 4,182 | 4,520 |
| Other | 1,179 | 684 |
| | $ 16,516 | $ 18,975 |
| Accrued liabilities: | | |
| Current portion of warranty reserve | $ 3,292 | $ 1,945 |
| Accrued vacation | 4,521 | 4,410 |
| Accrued bonus | 2,241 | 4,382 |
| Accrued 401(k) matching contribution | 2,030 | 2,321 |
| Collections in excess of revenues | 12,568 | 16,040 |
| Other | 5,180 | 4,952 |
| | $ 29,832 | $ 34,050 |
| Other liabilities: | | |
| Accrued warranty | $ 3,396 | $ 2,506 |
| Deferred income taxes | 438 | 438 |
| | $ 3,834 | $ 2,944 |

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. The only reporting units which have goodwill assigned to them are the businesses which were acquired and have been included in our commercial segment. 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):

| | Amortization |
|---|---|
| For the nine months ended December 31, 2004 | $ 5,130 |
| Expected for the remainder of fiscal year 2005 | 1,512 |
| Expected for fiscal year 2006 | 6,048 |
| Expected for fiscal year 2007 | 5,378 |
| Expected for fiscal year 2008 | 4,508 |
| Expected for fiscal year 2009 | 3,760 |
| Thereafter | 1,296 |

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

On December 31, 2004, 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 December 31, 2004 to February 28, 2005. At December 31, 2004, we had no outstanding borrowings under the revolving facility and amounts outstanding under standby letters of credit were $7.9 million, leaving borrowing availability under the revolving facility of $22.1 million. We were in compliance with our loan covenants at December 31, 2004.

On January 31, 2005,we entered into a three-year, $60 million revolving credit facility (the “New Facility”) in the form of a Second Amended and Restated Revolving Loan Agreement with Union Bank of California, Comerica Bank and Silicon Valley Bank. The New Facility amends and restates ViaSat’s existing $30 million revolving credit facility that was scheduled to expire on February 28, 2005 (the “Prior Facility”).

Borrowings under the New Facility are permitted up to a maximum amount of $60 million, including up to $15 million of letters of credit. Borrowings under the New Facility bear interest, at ViaSat’s option, at either the lender’s prime rate or at LIBOR (London Interbank Offered Rate) plus, in each case, an applicable margin based on the ratio of ViaSat’s total funded debt to EBITDA (income from operations plus depreciation and amortization). As with the Prior Facility, the New Facility is collateralized by substantially all of ViaSat’s personal property assets.

The New Facility contains financial covenants that set a minimum EBITDA limit for the twelve-month period ending on the last day of any fiscal quarter at $30 million, a minimum tangible net worth as of the last day of any fiscal quarter at $135 million and a minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter at 1.50 to 1.00.

**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

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

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 nine months ended December 31, 2004 and January 2, 2004 (in thousands).

| | For the nine months ended December 31, 2004 | For the nine months ended January 2, 2004 |
|---|---|---|
| Balance, beginning of period | $ 4,451 | $ 2,327 |
| Change in liability for warranties issued in period | 4,281 | 3,252 |
| Settlements made (in cash or in kind) during the period | (2,044) | (1,836) |
| Balance, end of period | $ 6,688 | $ 3,743 |

**Note 8 — Commitments and 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 and we do not believe that our existing customers will do so. We have been assessed liquidated damages and have accrued for the assessed amounts. There can be no assurance that our customers will not elect to terminate such contracts or seek additional liquidated damages or penalties from us in the future.

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. The parties’ claims are currently pending in the United States District Court, Southern District of California. 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. We have not recorded any accrual for contingent liabilities associated with this legal proceeding based on our belief that a liability, while possible, is not probable or estimable.

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.

**Note 9 – Derivatives**

During the third quarter, we entered into two foreign currency forward contracts in order to manage the foreign currency exchange risks related to certain operating expenses. At their inception, these foreign currency exchange contracts had maturities of less than 6 months. We do not purchase currency options for trading purposes. As of December 31, 2004, there were two foreign currency exchange contracts outstanding which are intended to reduce the foreign currency risk for amounts payable to vendors in Euros. One foreign exchange contract with a notional amount of $94,000 had a negligible fair value at December 31, 2004. The second foreign exchange contract with a notional amount of $1.9 million, consisting of both a put contract and a call contract, had a fair value of zero as of December 31, 2004. Accordingly, for the three and nine months ended December 31, 2004, we did not record any gains or losses on these foreign currency forward contracts.

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

**Note 10 — Income Taxes**

We currently estimate our annual effective income tax rate to be approximately 21% for fiscal 2005, as compared to the actual 13% effective income tax rate in fiscal 2004. The income tax benefit of approximately 8% for the third quarter of fiscal 2005 is lower than the expected annual effective tax rate primarily due to the recording of research and development tax credits allowed for in the third quarter of fiscal 2005 by The 2004 Working Families Act, enacted on October 4, 2004, that extended the research and development tax credit from June 30, 2004 to December 31, 2005. In the first and second quarters of fiscal year 2005, our estimated annual effective income tax rate did not include the effect of the extension of the research and development tax credit, which results in a catch-up adjustment of approximately $650,000 in this quarter. In addition, our estimate for current year research and development tax credit has increased, and we have recorded this quarter a benefit of approximately $300,000 relating to differences in estimates when preparing our fiscal year 2004 tax provision and actual amounts included in our 2004 tax return.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (“SP FAS 109-2”). The American Jobs Creation Act introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (“repatriation provision”), provided certain criteria are met. SP FAS 109-2 provides accounting and disclosure guidance for the repatriation provision. Although SP FAS 109-2 is effective immediately, until the Treasury Department or Congress provides additional clarifying language on key elements of the repatriation provision, we will not be able to determine the amount of foreign earnings, if any, we would repatriate. Accordingly, we will complete our evaluation after the necessary guidance is provided.

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

**Note 11 — Segment Information**

Our commercial and government segments are primarily distinguished by the type of customer and the related contractual requirements. The more regulated government environment is subject to unique contractual requirements and possesses economic characteristics, which differ from the commercial segment. Therefore, we are organized primarily on the basis of products with commercial and government (defense) communication applications. Reporting segments are determined consistent with the way management organizes and evaluates financial information internally for making operating decisions and assessing performance. Segment data include intersegment revenues and operating profits. The following table summarizes revenues and operating profits by reporting segment for the three and nine months ended December 31, 2004 and January 2, 2004. Certain corporate general and administrative costs, amortization of intangible assets and charges of acquired in-process research and development are not allocated to either segment and accordingly, are shown as reconciling items from segment operating profit and consolidated operating profit. Certain assets are not tracked by reporting segment. Consequently, it is not practical to show assets by reporting segments. Depreciation expense is allocated to reporting segments as an overhead charge based on direct labor dollars within the reporting segments.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| (in thousands) | December 31, 2004 | January 2, 2004 | December 31, 2004 | January 2, 2004 |
| Revenues Commercial | $ 41,054 | $ 39,323 | $ 131,414 | $ 108,798 |
| Government | 48,599 | 33,269 | 127,704 | 88,461 |
| Elimination of intersegment revenues | (1,466) | (834) | (4,118) | (1,901) |
| Total revenues | 88,187 | 71,758 | 255,000 | 195,358 |
| Operating profits (losses) | | | | |
| Commercial | 78 | 7,725 | 2,293 | 7,661 |
| Government | 6,984 | 3,921 | 20,915 | 10,505 |
| Elimination of intersegment operating profits | (170) | — | (473) | — |
| Segment operating profit before corporate and amortization | 6,892 | 11,646 | 22,735 | 18,166 |
| Corporate | (513) | (76) | (1,591) | (962) |
| Amortization of intangible assets | (1,512) | (1,959) | (5,130) | (5,878) |
| Income from operations | $ 4,867 | $ 9,611 | $ 16,014 | $ 11,326 |

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 SA Settlement.

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| (in thousands) | December 31, 2004 | January 2, 2004 | December 31, 2004 | January 2, 2004 |
| United States of America | $ 68,533 | $ 58,501 | $ 202,683 | $ 159,727 |
| Europe | 11,134 | 9,080 | 24,811 | 18,226 |
| Asia Pacific | 2,798 | 2,954 | 15,911 | 14,504 |
| North America other than United States | 5,625 | 416 | 10,305 | 1,944 |
| Latin America | 97 | 807 | 1,290 | 957 |
| | $ 88,187 | $ 71,758 | $ 255,000 | $ 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 $53,000 at December 31, 2004 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 April 2, 2004, as amended, 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**

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

Our internal growth to date has historically been driven largely by our success in meeting the need for advanced communications products for the U.S. government and commercial customers. By developing cost-effective communications products incorporating our advanced technologies, we have continued to grow the markets for our products and services.

Our company is organized principally in two segments: government and commercial. Our government business encompasses specialized products and systems solutions principally serving government and aerospace and defense customers and includes:

- Tactical data links, including MIDS,
- Information security and assurance products and services, which enable military and government users to communicate secure information over secure and non-secure networks,
- UHF DAMA satellite communications products consisting of modems, terminals and network control systems,
- Government satellite communication products and services, which provide innovative solutions to government customers to increase available bandwidth using existing satellite capacity, and
- Simulation and test equipment, which allows the testing of sophisticated airborne radio equipment without expensive flight exercises.

Serving government customers with cost-effective products and solutions continues to be a critical and core element of our overall business strategy.

We have been increasing our focus in recent years on offering satellite based communications products and systems solutions to address commercial market needs. In pursuing this strategy, we have acquired three strategic satellite communication equipment providers: (1) the Satellite Networks Business of Scientific-Atlanta in fiscal year 2001; (2) Comsat Laboratories products' business from Lockheed Martin in fiscal year 2002; and (3) US Monolithics, LLC in fiscal year 2002. Our commercial business accounted for approximately 47% and 52% of our revenues in the three and nine months periods ended December 31, 2004, respectively, and accounted for 54% of our revenues in fiscal year 2004 and 56% of our revenues in fiscal year 2003. To date, our principal commercial offerings include Very Small Aperture Terminals (VSATs), broadband internet equipment over satellite, network control systems, network integration services, network operation services, gateway infrastructure, antenna systems and other satellite ground stations. In addition, based on our advanced satellite technology and systems integration experience, we won several important projects in the three key broadband markets: enterprise, consumer and in-flight mobile applications.

Our commercial business offers an end-to-end capability to provide customers with a broad range of satellite communication and other wireless communications equipment solutions including:

- Consumer broadband products and solutions to customers based on DOCSIS or DVB-RCS-based technology,
- Mobile broadband products and systems for in-flight, maritime and ground mobile broadband applications,
- Enterprise VSAT networks products and services,
- Antenna systems for commercial and defense applications and customers,
- Satellite networking systems design and technology development, and
- MMIC design and development, with an emphasis in systems engineering of packaged components, which specializes in high-frequency communication technology design and development.

With expertise in commercial satellite network engineering, gateway construction, and remote terminal manufacturing for all types of interactive communications services, we believe we have the unique ability to take overall responsibility for designing, building, initially operating, and then handing over a fully operational, customized satellite network serving a variety of markets and applications.

There are a number of large new business opportunities we are continuing to pursue in fiscal year 2005. In the government segment, the opportunities include domestic and international MIDS orders, new joint tactical radio system contracts, more funding for current information assurance projects, new information assurance contracts using our HAIPIS technology, a new UHF DAMA modem order, and orders for our new KG-250 product. In our commercial segment, the opportunities include new production orders for consumer and mobile broadband systems, further penetration in the North American consumer and enterprise VSAT market and new antenna systems programs. The timing of these orders is not entirely predictable, so our new business awards and revenue outlook may vary somewhat from quarter-to-quarter or even year-to-year.

For the current quarter, our income from operations, excluding the income statement line “Amortization of intangible assets,” is approximately seven percent of revenues. To the extent we are not generating sufficient gross profit from revenues, we strive to adjust other operating expenses to increase this percentage. Due to the need to increase our new contracts awards, to expand our product portfolio, the high level of customer funded research and development and our operating performance, we have only slowly improved this percentage over the last few fiscal years. As fiscal year 2005 progresses and we look ahead to fiscal year 2006, we expect to see improvement and achieve a higher quarterly profit percentage.

Our increased capital needs for fiscal year 2005 as compared to fiscal year 2004 will continue as we expand our facilities, production test equipment, lab development equipment and VSAT network operations to meet customer program requirements and growth forecasts. Our facility needs have normally been met with long-term lease agreements, but we do anticipate additional tenant improvements over the next two fiscal years associated with our expansion. Additionally, as our employee base increases, the need for additional computers and other equipment will also increase.

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our 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. We consider the policies discussed below 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. We describe the specific risks for these critical accounting policies in the following paragraphs. For all of these policies, we caution 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, we recognize revenues as costs are incurred 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.

It is also possible that adjusted estimates could indicate we will incur a loss on a contract. We provide for anticipated losses on contracts by a charge to income during the period in which they are first identified. In the quarter ended December 31, 2004, we recorded losses of approximately $4.8 million related to loss contracts. There were no significant charges for loss contracts in fiscal years ended April 2, 2004 or March 31, 2003.

We also have contracts and purchase orders where revenue is recorded on delivery of products in accordance with SAB 104. In this situation, contracts and customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

*Capitalized software development costs*

We charge costs of developing software for sale 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, we amortize the software development costs 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 did not capitalize any costs related to software developed for resale in the nine-month periods ended December 31, 2004 or January 2, 2004. Amortization expense of software development was $839,000 and $968,000 for the three months ended December 31, 2004 and January 2, 2004, respectively, and $2.6 million and $1.9 million for the nine months ended December 31, 2004 and January 2, 2004, respectively. These software development costs are part of other assets on the balance sheet and we record the related amortization expense 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 significant portion of our sales has been to the U.S. government. More recently, commercial customers comprise a larger part of our revenues. Our accounts receivables balance was $138.4 million, net of allowance for doubtful accounts of $297,000 as of December 31, 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 we ship the products based upon an estimate of expected warranty costs. We classify the amounts we expect to incur within twelve months as a current liability. For mature products, we estimate the warranty costs 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, we will make future adjustments to the recorded warranty obligation.

*Goodwill and other intangible assets*

We account for our goodwill under Statement of Financial Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets.* 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 reporting units that have goodwill assigned to them. The only reporting units which have goodwill assigned to them are the businesses which were acquired and have been included in our commercial segment. 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 reporting unit used in the first step, and is compared to its carrying value. The shortfall of the value below carrying value represents the amount of goodwill impairment. We test goodwill for impairment during the fourth quarter every fiscal year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist.

We estimate the fair values of the related operations using discounted cash flows and other indicators of fair value. We base the forecast of future cash flows on our best estimate of the future revenues and operating costs, which we derive primarily from existing firm orders, expected future orders, contracts with suppliers, labor agreements, and general market conditions. Changes in these forecasts could cause a particular reporting unit to either pass or fail the first step in the SFAS No. 142 goodwill impairment model, which could significantly influence whether a goodwill impairment needs to be recorded. We adjust the cash flow forecasts by an appropriate discount rate derived from our market capitalization plus a suitable control premium at the date of evaluation.

*Impairment of long-lived assets (Property and equipment and other intangible assets)*

We adopted SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* on April 1, 2002. In accordance with SFAS No. 144, we assess potential impairments to our long-lived assets, including property and equipment and other intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We recognize an impairment loss when the undiscounted cash flows expected to be generated by an asset (or group of assets) are less than the asset's carrying value. Any required impairment loss would be measured as the amount by which the asset's carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and charged to results of operations. We have not identified any such impairments.

*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 as of year-end. Realization of our net deferred tax assets as of December 31, 2004 depends on our ability to generate sufficient future income. We believe that it is more likely than not that we will realize our net deferred tax assets 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.

*Derivatives*

We enter into foreign currency forward and option contracts to hedge certain forecasted foreign currency transactions. Gains and losses arising from foreign currency forward and option contracts not designated as hedging instruments are recorded in investment income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts that are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as gains (losses) on derivative instruments until the underlying transaction affects our earnings. The fair value of our foreign currency forward contracts was insignificant at December 31, 2004. We had $2.0 million of notional amount of foreign currency options outstanding at December 31, 2004. We had no foreign currency forward or option contracts outstanding at April 2, 2004.

**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, 2004 | January 2, 2004 | December 31, 2004 | January 2, 2004 |
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 77.6 | 72.2 | 76.1 | 73.0 |
| Gross profit | 22.4 | 27.8 | 23.9 | 27.0 |
| Operating expenses: | | | | |
| Selling, general and administrative | 12.9 | 8.9 | 13.5 | 14.1 |
| Independent research and development | 2.2 | 2.8 | 2.1 | 4.0 |
| Amortization of intangible assets | 1.8 | 2.7 | 2.0 | 3.0 |
| Income from operations | 5.5 | 13.4 | 6.3 | 5.9 |
| Income before income taxes | 5.5 | 13.3 | 6.3 | 5.6 |
| Net income | 5.9 | 9.9 | 4.9 | 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. See "Notes to Condensed Consolidated Financial Statements — Note 8 – Commitments and Contingencies."

In the following period-to-period comparisons, we are presenting our operating results with and without the SA settlement. The without presentation is not a financial measure determined in accordance with accounting principles generally accepted in the United States of America, or GAAP. We believe the presentation of the without SA Settlement measure is useful to investors in comparing our period to period performance as the one time benefit of significant settlements included in results is not representative when comparing financial performance.

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

*Revenues.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $ 88.2 | $ 71.8 | $ 16.4 | 22.8% |

The increase in revenues was due to our higher beginning backlog of $304.0 million and quarterly customer awards of $107.5 million and the conversion of certain backlog and awards into revenues. Revenue increases were experienced in both our government and commercial segments.

*Gross Profit.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Gross profit | $ 19.7 | $ 19.9 | $ (0.2) | (1.0)% |
| Percentage of revenues | 22.3% | 27.7% | | |
| **Without SA Settlement** | | | | |
| Gross profit | $ 19.7 | $ 16.7 | $ 3.0 | 18.0% |
| Percentage of revenues | 22.3% | 23.3% | | |

Excluding the effects of the SA Settlement, gross profit grew from the increase in revenue, but gross profit percentage was less than the prior year due to cost overruns on two development programs in the government segment, which reduced current period gross profit by approximately $4.8 million.

*Selling, General and Administrative Expenses.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Selling, general and administrative | $ 11.4 | $ 6.4 | $ 5.0 | 78.1% |
| Percentage of revenues | 12.9% | 8.9% | | |
| **Without SA Settlement & ORBCOMM** | | | | |
| Selling, general and administrative | $ 11.4 | $ 9.9 | $ 1.5 | 15.2% |
| Percentage of revenues | 12.9% | 13.8% | | |

Included in Selling, General and Administrative (SG&A) for the three months ended January 2, 2004, are a $3.1 million benefit from the SA Settlement and $409,000 of bad debt recovery (ViaSat sold 44,673 shares of Orbital Sciences Corp stock from the bankruptcy liquidation proceedings of ORBCOMM). The increase in SG&A expenses was primarily attributable to higher sales levels in the government segment. 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.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Independent research and development | $ 1.9 | $ 2.0 | $ (0.1) | (5.0)% |
| Percentage of revenues | 2.2% | 2.8% | | |

The decrease in independent research and development (IR&D) expenses reflects the reduced efforts for company funded development projects due to our higher level of customer funded development currently reflected in revenues and cost of revenues and the completion of certain IR&D projects in the government segment.

*Amortization of Intangible Assets.* The intangible assets from acquisitions in fiscal year 2001 and in fiscal year 2002 are being amortized over useful lives ranging from two to ten years. The amortization of intangible assets will decrease each year as the intangible assets with shorter lives become fully amortized.

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

| | Amortization |
|---|---|
| For the nine months ended December 31, 2004 | $ 5,130 |
| Expected for the remainder of fiscal year 2005 | 1,512 |
| Expected for fiscal year 2006 | 6,048 |
| Expected for fiscal year 2007 | 5,378 |
| Expected for fiscal year 2008 | 4,508 |
| Expected for fiscal year 2009 | 3,760 |
| Thereafter | 1,296 |

*Interest Expense.* Interest expense decreased to $32,000 for the three months ended December 31, 2004 from $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 outstanding borrowings. Outstanding borrowings under our line of credit were zero at December 31, 2004 and zero at January 2, 2004.

*Interest Income.* Interest income was zero for the three months ended December 31, 2004 and $5,000 for the three months ended January 2, 2004.

*Provision (Benefit) for Income Taxes.* We currently estimate our annual effective income tax rate to be approximately 21% for fiscal 2005, as compared to the actual 13% effective income tax rate in fiscal 2004. The income tax benefit of approximately 8% for the third quarter of fiscal 2005 is lower than the expected annual effective tax rate primarily due to the recording of research and development tax credits allowed for the third quarter of fiscal 2005 by The 2004 Working Families Act, enacted on October 4, 2004, that extended the research and development tax credit from June 30, 2004 to December 31, 2005. In the first and second quarters of fiscal year 2005, our estimated annual effective income tax rate did not include the effect of the extension of the research and development tax credit, which results in a catch-up adjustment of approximately $650,000 in this quarter. In addition, our estimate for current year research and development tax credit has increased, and we have recorded this quarter a benefit of approximately $300,000 relating to differences in estimates used when preparing our fiscal 2004 tax provision and actual amounts included in our 2004 tax return.

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**Our Segment Results for the Three Months Ended December 31, 2004 vs. Three Months Ended January 2, 2004**

**Government Segment**

*Revenues.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $ 48.6 | $ 33.3 | $ 15.3 | 45.9% |

The government segment received awards of $73.4 million for the third quarter of fiscal year 2005 compared to $49.0 million for the third quarter of fiscal year 2004. The higher beginning backlog and conversion of certain backlog and new orders to revenue contributed to revenue growth. Increased revenues were experienced in the following product lines: $15.0 million for tactical data links, principally our MIDS units and $2.2 million for tactical networking and information assurance systems and products, principally due to KG-250 shipments. The increase was partially offset by the impact of $4.8 million in contract charges related to two programs, primarily related to schedule and cost growth.

*Segment Operating Profit.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Operating profit | $ 7.0 | $ 3.9 | $ 3.1 | 79.5% |
| Percentage of revenues | 14.4% | 11.7% | | |

The increase in government segment operating profit dollars was primarily related to the impact from increased revenue quarter over quarter offset by $4.8 million in contract charges related to schedule and cost overruns on two programs and higher bid and proposal costs year over year.

**Commercial Segment**

*Revenues.*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $ 41.1 | $ 39.3 | $ 1.8 | 4.6% |

The increase in revenues reflects improved competitive positioning of our broadband products and more favorable market conditions in the commercial telecommunications market for our VSAT network products. Revenue increase was $2.5 million for enterprise VSAT networks partially offset by $2.2 million in lower revenues for antenna systems for the third quarter of fiscal year 2005 over the third quarter of fiscal year 2004.

*Segment Operating Profit*

| (In millions, except percentages) | Three Months Ended December 31, 2004 | Three Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Operating profit | $ 0.1 | $ 7.7 | $ (7.6) | (98.7)% |
| Percentage of revenues | 0.2% | 19.6% | | |
| **Without SA Settlement & ORBCOMM** | | | | |
| Operating profit | $ 0.1 | $ 1.0 | $ (0.9) | (90.0)% |
| Percentage of revenues | 0.2% | 2.5% | | |

Included in the commercial segment operating profit for the three months ended January 2, 2004, are $6.3

million from the SA Settlement and $409,000 of bad debt recovery (ViaSat sold 44,673 shares of Orbital Sciences Corp stock from the bankruptcy liquidation proceedings of ORBCOMM). Despite the increase in revenues, commercial segment operating profit decreased, primarily due to satellite antenna re-pointing costs of $400,000 incurred following the failure of Intelsat Americas-7 satellite and higher selling and research and development costs in our enterprise VSAT business of $500,000.

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

*Revenues*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $ 255.0 | $ 195.4 | $ 59.6 | 30.5% |

The increase in revenues was due to our higher beginning backlog of $281.6 million and customer awards of $296.7 million for the first nine months of our fiscal year 2005 and the conversion of certain backlog and awards into revenues. Revenues gains were experienced in both our government and commercial segments.

*Gross Profit*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Gross profit | $ 60.9 | $ 52.7 | $ 8.2 | 15.6% |
| Percentage of revenues | 23.9% | 27.0% | | |
| **Without SA Settlement** | | | | |
| Gross profit | $ 60.9 | $ 49.5 | $ 11.4 | 23.0% |
| Percentage of revenues | 23.9% | 25.3% | | |

Excluding the effects of the SA Settlement, gross profit dollars grew from the increase in revenue, but gross profit percentage was less than the prior year due principally to cost overruns involving government development programs, which reduced year-to-date gross profit by approximately $4.8 million and from cost overruns involving consumer broadband development programs which reduced year-to-date gross profit by approximately $3.3 million.

*Selling, General and Administrative Expenses.*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Selling, general and administrative | $ 34.4 | $ 27.6 | $ 6.8 | 24.6% |
| Percentage of revenues | 13.5% | 14.1% | | |
| **Without SA Settlement & ORBCOMM** | | | | |
| Selling, general and administrative | $ 34.4 | $ 31.1 | $ 3.3 | 10.6% |
| Percentage of revenues | 13.5% | 15.9% | | |

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. SG&A expense is increased principally from approximately $700,000 for efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and selling expenses related to the pursuit of commercial segment and government segment programs.

*Independent Research and Development.*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Independent research and development | $ 5.4 | $ 7.9 | $ (2.5) | (31.6)% |
| Percentage of revenues | 2.1% | 4.0% | | |

The IR&D expenses reflects the reduced efforts for company funded development projects due to the increase of orders where customer funded development was part of the contract and the completion of certain IR&D projects in the government segment.

*Amortization of Intangible Assets.* The intangible assets from acquisitions in fiscal year 2001 and in fiscal year 2002 are being amortized over useful lives ranging from two to ten years. The amortization of intangible assets will decrease each year as the intangible assets with shorter lives become fully amortized.

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

| | Amortization |
|---|---|
| For the nine months ended December 31, 2004 | $ 5,130 |
| Expected for the remainder of fiscal year 2005 | 1,512 |
| Expected for fiscal year 2006 | 6,048 |
| Expected for fiscal year 2007 | 5,378 |
| Expected for fiscal year 2008 | 4,508 |
| Expected for fiscal year 2009 | 3,760 |
| Thereafter | 1,296 |

*Interest Expense.* Interest expense decreased to $91,000 for the nine months ended December 31, 2004 from $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 lower outstanding borrowings. Outstanding borrowings under our line of credit were zero at December 31, 2004 and zero at January 2, 2004.

*Interest Income.* Interest income increased to $22,000 for the nine months ended December 31, 2004 from $9,000 for the nine months ended January 2, 2004.

*Provision (Benefit) for Income Taxes.* We currently estimate our annual effective income tax rate to be approximately 21% for fiscal 2005, as compared to the actual 13% effective income tax rate in fiscal 2004. The income tax provision for the nine months ended December 31, 2004 is slightly lower than the expected annual effective tax rate primarily due to recording in this quarter this quarter a benefit of approximately $300,000 relating to differences in estimates used when preparing our fiscal 2004 tax provision and actual amounts included in our 2004 tax return.

**Our Segment Results for the Nine Months Ended December 31, 2004 vs. Nine Months Ended January 2, 2004**

**Government Segment**

*Revenues.*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $ 127.7 | $ 88.5 | $ 39.2 | 44.3% |

The government segment received awards of $178.9 million for the first nine months of fiscal year 2005 compared to $143.7 million for the first nine months of fiscal year 2004. The conversion of certain backlog and orders to revenue contributed to revenue growth. Year-to-date, increased revenues were experienced in the following product lines: $28.8 million for tactical data links, principally our MIDS units, and $10.1 million for tactical networking and information assurance systems and products, for the first nine months of fiscal year 2005 over the first nine months of fiscal year 2004.

*Segment Operating Profit.*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Operating profit | $ 20.9 | $ 10.5 | $ 10.4 | 99.0% |
| Percentage of revenues | 16.4% | 11.9% | | |

The increase in government segment operating profit dollars was primarily related to the impact from increased revenue period over period contributing to a $12.4 million improved gross profit in our tactical data links products and lower IR&D costs partially offset by cost overruns on two development programs, which reduced year-to-date gross profit by approximately $4.8 million.

**Commercial Segment**

*Revenues.*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $ 131.4 | $ 108.8 | $ 22.6 | 20.8% |

The increase in revenues reflects improved competitive positioning across all our commercial products, more favorable market conditions in the commercial telecommunications market for our VSAT network products and further development of our in-flight and consumer satellite broadband internet systems. Revenue increases were comprised of $7.7 million for consumer and mobile broadband products and systems, $10.3 million for enterprise VSAT networks products and $1.2 million for antenna systems for the first nine months of fiscal year 2005 over the first nine months of fiscal year 2004.

*Segment Operating Profit.*

| (In millions, except percentages) | Nine Months Ended December 31, 2004 | Nine Months Ended January 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Operating profit | $ 2.3 | $ 7.7 | $ (5.4) | (70.1)% |
| Percentage of revenues | 1.8% | 7.1% | | |
| **Without SA Settlement & ORBCOMM** | | | | |
| Operating profit | $ 2.3 | $ 1.0 | $ 1.3 | 130.0% |
| Percentage of revenues | 1.8% | 0.9% | | |

Included in the commercial segment operating profit for the nine months ended January 2, 2004, are $6.3 million from the SA Settlement and $409,000 in proceeds from the bankruptcy liquidation of ORBCOMM. The increase in commercial segment operating profit dollars was attributable to the impact from increased revenue period over period in antenna systems and enterprise VSAT networks programs partially offset by $3.3 million in contract accounting charges related to cost overruns on consumer broadband programs and production close-out costs on mobile broadband programs.

**Backlog**

As reflected in the table below, funded and total backlog increased during the first nine months of fiscal year 2005 with the increases coming from both our government and commercial segments. New contract awards in the current quarter increased backlog to a new all-time high for ViaSat.

| | December 31, 2004 | April 2, 2004 |
|---|---|---|
| | (in millions) | |
| **Firm backlog** | | |
| Government segment | $ 194.1 | $ 142.9 |
| Commercial segment | 129.2 | 138.7 |
| Total | $ 323.3 | $ 281.6 |
| **Funded backlog** | | |
| Government segment | $ 126.8 | $ 119.6 |
| Commercial segment | 129.2 | 138.7 |
| Total | $ 256.0 | $ 258.3 |
| Contract options | $ 23.1 | $ 25.8 |

The firm backlog does not include contract options. Of the $323.3 million in firm backlog, approximately $65.3 million is expected to be delivered during the remaining three months of fiscal year 2005, and the balance is expected to be delivered in fiscal year 2006 and thereafter. 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.

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.

**Liquidity and Capital Resources**

We have financed our operations to date primarily with cash flows from operations, bank line of credit financing, equity financing and loans for the purchase of capital equipment. The general cash needs of our government and commercial segments can vary significantly and depend on the type and mix of contracts (i.e. product or service, development or production, timing of payments, etc.) in backlog, the quality of the customer (i.e. U.S. government or commercial, domestic or international) and the duration of the contract. In addition, for both of our segments, program performance significantly impacts the timing and amount of cash flows. If a program is performing and meeting its contractual requirements, then the cash flow requirements are usually lower.

The cash needs of the government segment tend to be more of a function of the type of contract rather than customer quality. Also, U.S. government procurement regulations tend to restrict the timing of cash payments on the contract. In the commercial segment, our cash needs are driven primarily by the quality of the customer and the type of contract. The quality of the customer will typically affect the specific contract cash flow and whether financing instruments are required by the customer. In addition, the commercial environment tends to provide for more flexible payment terms with customers, including advance payments.

Cash used in operating activities for the first nine months of fiscal year 2005 was $4.4 million as compared to cash provided by operating activities for the first nine months of fiscal year 2004 of $30.9 million. The decrease in cash provided by operating activities related to an increase in both billed and unbilled accounts receivable, increase in inventories, the payment of 401(k) and performance bonuses of $6.7 million in the first nine months of fiscal year 2005, compared to zero in the first nine months of fiscal year 2004, offset by cash provided by operations from increased profitability year over year. Cash flow from operating activities for the first nine months of fiscal year 2004, included $9.0 million received in the SA Settlement (see note 8 to our condensed consolidated financial statements). The billed accounts receivable increased due to increased shipments in both our government and commercial segments and the achievement of program milestones. Unbilled accounts receivable increased due to the higher level of MIDS production and the related progress payment process and the delay in achieving milestones primarily on information assurance, consumer broadband and enterprise VSAT programs, and slower than expected uptake for mobile broadband products. We believe the unbilled accounts receivable balances on these programs have reached peak levels and will be flat in our fourth quarter, and then will decrease over the following five or six quarters. The increase in inventory was primarily related to KG-250 inventory as we begin to ramp-up production, and consumer and enterprise VSAT equipment

Cash used in investing activities for the first nine months of fiscal year 2005 was $8.9 million as compared to cash used in investing activities for the first nine months of fiscal year 2005 of $6.9 million. We acquired $8.9 million in equipment in the first nine months of fiscal year 2005 compared to acquiring $6.9 million in equipment in the first nine months of fiscal year 2004.

Cash provided by financing activities for the first nine months of fiscal year 2005 was $3.5 million as compared to cash used in financing activities for the first nine months of fiscal year 2004 of $8.0 million. This increase for the first nine months of fiscal year 2005 was primarily the result of net cash payments of $10.0 million on our line of credit in the first nine months of fiscal year 2004, offset by cash received from the exercise of employee stock options.

At December 31, 2004, we had $9.0 million in cash, cash equivalents and short-term investments, $132.2 million in working capital and no outstanding borrowings under our line of credit. We had $7.9 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of $22.1 million. At January 2, 2004, we had $20.4 million in cash and cash equivalents and short-term investments, $97.9 million in working capital and no outstanding borrowings under our line of credit.

On December 31, 2004, 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 December 31, 2004 to February 28, 2005. We were in compliance with our loan covenants at December 31, 2004.

On January 31, 2005, we entered into a three-year, $60 million revolving credit facility (the “New Facility”) in the form of a Second Amended and Restated Revolving Loan Agreement with Union Bank of California, Comerica Bank and Silicon Valley Bank. The New Facility amends and restates ViaSat’s existing $30 million revolving credit facility that was scheduled to expire on February 28, 2005 (the “Prior Facility”).

Borrowings under the New Facility are permitted up to a maximum amount of $60 million, including up to $15 million of letters of credit. Borrowings under the New Facility bear interest, at ViaSat’s option, at either the lender’s prime rate or at LIBOR (London Interbank Offered Rate) plus, in each case, an applicable margin based on the ratio of ViaSat’s total funded debt to EBITDA (income from operations plus depreciation and amortization). As with the Prior Facility, the New Facility is collateralized by substantially all of ViaSat’s personal property assets.

The New Facility contains financial covenants that set a minimum EBITDA limit for the twelve-month period ending on the last day of any fiscal quarter at $30 million, a minimum tangible net worth as of the last day of any fiscal quarter at $135 million and a minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter at 1.50 to 1.00.

In June 2004 we filed a universal shelf registration statement with the Securities and Exchange Commission for the future sale of up to $154 million of debt securities, common stock, preferred stock, depositary shares and warrants. Additionally, ViaSat has available $46 million of these securities, which were previously registered under a shelf registration statement ViaSat originally filed in September 2001. Up to $200 million of the securities may now 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 and working capital.

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 twelve 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.

**Contractual Obligations**

The following table sets forth a summary of our obligations under operating leases, irrevocable letters of credit, purchase commitments and other long-term liabilities for the periods indicated (in thousands):

| | Total | For the balance of fiscal year 2005 | For the fiscal years 2006-2007 | 2008-2009 | After 2009 |
|---|---|---|---|---|---|
| Operating leases | $ 60,211 | $ 1,716 | $ 10,438 | $ 10,364 | $ 37,693 |
| Standby letters of credit | 7,875 | 3,002 | 4,680 | 193 | — |
| Purchase commitments | 175,068 | 43,780 | 114,555 | 16,733 | — |
| Other long-term liabilities | 3,834 | — | 2,036 | 1,798 | — |
| Total | $ 246,988 | $ 48,498 | $ 131,709 | $ 29,088 | $ 37,693 |

We purchase components from a variety of suppliers and use several subcontractors and contract manufacturers to provide design and manufacturing services for our products. During the normal course of business, we enter into agreements with subcontractors, contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to firm orders being placed. Consequently, only a portion of our reported purchase commitments arising from these agreements are firm, non-cancelable and unconditional commitments.

**Future Accounting Requirements**

In December 2004, the Financial Accounting Standards Board revised SFAS 123, “Share-Based Payment” (“SFAS 123R”), which requires companies to expense the estimated fair value of employee stock options and similar awards. The accounting provisions of SFAS 123R will be effective for the second quarter of fiscal 2006.

We will adopt the provisions of SFAS 123R and plan to use the modified prospective transition method. Under the modified prospective transition method, SFAS 123R, which provides certain changes to the method for valuing stock-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123 (See Stock-based Compensation in Note 1). At December 31, 2004, unamortized compensation expense, as determined in accordance with SFAS 123, that we expect to record during the second quarter of fiscal 2006 was approximately $2.4 million before income taxes. We will incur additional expense during the second quarter of fiscal 2006 related to new awards granted during the last three months of fiscal 2005 and the first three months of fiscal 2006 that cannot yet be quantified. We are in the process of determining which measurement model to value stock-based compensation as prescribed in SFAS 123R will be applied to valuing stock-based awards granted after the effective date and the impact the recognition of compensation expense related to such awards will have on the financial statements.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements at December 31, 2004.

**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 50% of our revenues in the first nine months of fiscal year 2005, 46% of our revenues in fiscal year 2004 and 45% of our revenues in fiscal year 2003 were derived from U.S. government applications. Although our commercial business has substantially reduced our dependence on U.S. government business, our U.S. government 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.

***Our Operating Results may be Adversely Affected by Unfavorable Economic and Market Conditions***

Adverse and uncertain economic conditions worldwide have had significant effects on markets we serve, particularly satellite communications equipment manufacturers and network operators, and have had a negative effect on our revenues. Adverse and uncertain economic conditions may affect our business in the future, including our ability to increase or maintain our revenues and operating results. In addition, because we intend to continue to make investments in research and development, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

Further, because current domestic and global economic conditions and economies are 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. Our largest revenue producing contracts are related to our tactical data links (which includes MIDS) products generating approximately 21% of our revenues in the first nine months of fiscal year 2005, 15% of our revenues in fiscal year 2004 and 18% of our revenues in fiscal year 2003. Our five largest contracts generated approximately 28% of our revenues in the first nine months of fiscal year 2005, 24% of our revenues in fiscal year 2004 and 29% of our revenues in fiscal year 2003. 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 26% of our revenues in the first nine months of fiscal year 2005, 28% of our revenues in fiscal year 2004 and 34% of our revenues in fiscal year 2003 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 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, our ability to borrow under our line of credit may be restricted. The line of credit, among other things, restricts our ability to do the following:

- incur additional indebtedness,
- create liens on our assets,
- 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, the line of credit requires us to satisfy the following financial tests:

- minimum EBITDA (income from operations plus depreciation and amortization) for the twelve-month period ending on the last day of any fiscal quarter of $30 million,
- minimum tangible net worth as of the last day of any fiscal quarter of $135 million, and
- minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter of 1.50 to 1.00.

We cannot assure you we will be able to comply with our financial or other covenants or that any covenant violations will be waived. Any violation 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 or other 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 acceptable to us, if at all.

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

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

- successful integration of various elements of our complex technologies and system architectures,
- timely completion and introduction of new product designs,
- achievement of acceptable product costs,
- timely and efficient implementation of our manufacturing and assembly processes and cost reduction efforts,

- establishment of close working relationships with major customers for the design of their new wireless communications systems incorporating our products,
- development of competitive products by competitors,
- marketing and pricing strategies of our competitors with respect to competitive products, and
- market acceptance of our new products.

We cannot assure you our product development efforts for communications products will be successful or any new products 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 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 which can be sold at higher prices. However, we cannot assure you we will be able to obtain any yield improvements or cost reductions or introduce any new products in the future. To the extent 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 involving the development of new products. We derived approximately 29% of our revenues in fiscal year 2004 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 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 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 87% of our revenues in the first nine months of fiscal year 2005, 89% of our revenues in fiscal year 2004 and 95% of our revenues in fiscal year 2003 were derived from contracts with fixed prices. We assume greater financial risk on fixed-price contracts than on other types of contracts because if we do not anticipate technical problems, estimate costs accurately or control costs during performance of a fixed-price contract, it may significantly reduce our net profit or cause a loss on the contract. We believe 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 our estimates will be adequate or that substantial losses on fixed-price contracts will not occur in the future. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

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

Our future growth depends on penetrating new markets, adapting existing satellite communications products to new applications, and introducing new communications products that achieve market acceptance. Accordingly, we are actively applying our communications expertise to design and develop new hardware and software products and enhance existing products. We expended $5.4 million in the first nine months of fiscal year 2005, $10.0 million in fiscal year 2004 and $16.0 million in fiscal year 2003 in research and development activities. We expect to continue to 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 our 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 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 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 the steps we have taken to protect our proprietary rights are adequate. Also, we cannot assure you 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 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 we would be able to develop alternative products or, if these alternative products were developed, they would perform as required or be accepted in the applicable markets. Also, we have delivered certain technical data and information to the U.S. government under procurement contracts, and it may have unlimited rights to use that technical data and information. There can be no assurance that the U.S. government will not authorize others to use that data and information to compete with us. If we are unable to address any of the risks described above relating to the protection of our proprietary rights or the U.S. government's rights with respect to certain technical data and information, 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 our success depends to a significant degree on our ability to attract and retain highly skilled personnel, including our Chairman and Chief Executive Officer, Mark D. Dankberg, and those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for these types of personnel is intense, and the loss of key employees could materially harm our business and impair the value of our common stock. We do not have employment agreements with any of our officers.

***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. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting and our independent registerd public accounting firm's audit of that assessment has required, and is likely to continue to require, the commitment of significant financial and managerial resources, which could materially harm our business and impair the value of our common stock.

***We Have Identified a Material Weakness in our Internal Control Over Financial Reporting and May, in the Future, Identify Other Material Weaknesses***

Our independent registered public accounting firm noted in its third quarter review that our accounting staff had identified but improperly assessed the accounting consequences for two types of non-routine transactions. These two matters included (1) two separate bill and hold transactions where revenue was not deferred in accordance with the revenue recognition principles of SEC Staff Accounting Bulletin 104, *Revenue Recognition*, and (2) two foreign currency forward purchase contracts that were not properly assessed and designated as hedges in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

Because adjustments to our interim financial statements were required during the third quarter review related to the bill and hold transactions that involved amounts which were material to the interim financial statements, we concluded that a material weakness in our internal control over financial reporting existed as of December 31, 2004. As defined in Public Company Accounting Oversight Board Standard No. 2, a material weakness is "a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected."

Specifically, our management did not have formalized policies and procedures in place that (1) specify how significant and non-routine transactions should be assessed, (2) specify how the accounting conclusions were to be documented and (3) include criteria requiring that certain accounting conclusions be reviewed and approved by a more experienced member of the accounting staff. Our management has also concluded that our inadequate depth of finance and accounting resources contributed to the significance of these internal control deficiencies.

Although we are undertaking a number of initiatives to address these internal control deficiencies, the existence of a material weakness is an indication that there is more than a remote likelihood that a material misstatement of our financial statements will not be prevented or detected in the current or any future periods. In addition, we may in the future identify further material weaknesses or significant deficiencies in our internal control over financial reporting that we have not discovered to date.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting as of our fiscal year-end. We may be unable to remediate these internal control deficiencies in sufficient time to permit testing of our documentation and remediation efforts relating to this material weakness. If we are unable to remediate the deficiencies in a manner that permits testing of the effectiveness of these remediation efforts, management may conclude that our internal control over financial reporting is not operating effectively or our independent registered public accounting firm may be required to issue an adverse opinion on our internal control over financial reporting, which could in either case adversely affect investor confidence and impair the value of our common stock.

***We Depend on the Recruitment and Retention of Personnel with U.S. Government Security Clearances, and Our Failure to Attract and Retain Such Personnel Could Seriously Harm Our Business***

Due to the specialized nature of our businesses, our future performance is dependent upon the continued services of our key engineering and management personnel with U.S. government security clearances. Our prospects depend in part upon our ability to attract and retain qualified engineering and management personnel for our operations. Competition for personnel with U.S. government security clearances is intense, and we may not be successful in attracting or retaining such qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations and financial condition.

***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 we believe may enhance stockholder value. These potential future transactions may include a variety of different business arrangements, including acquisitions, spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments. Although our goal is to maximize stockholder value, such transactions may have unexpected results which 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,
- 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 21% of our revenues in the first nine months of fiscal year 2005, 24% of our revenues in fiscal year 2004 and 27% of our revenues in fiscal year 2003 were derived from international sales. We anticipate 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.

***Exports of Our Defense Products are Subject to the International Traffic in Arms Regulations and Require a License from the U.S. Department of State Prior to Shipment***

We must comply with the United States Export Administration Regulations and the International Traffic in Arms Regulations, or ITAR. Our products that have military or strategic applications are on the munitions list of the ITAR and require an individual validated license in order to be exported to certain jurisdictions. Any changes in export regulations may further restrict the export of our products, and we may cease to be able to procure export licenses for our products under existing regulations. The length of time required by the licensing process can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restriction on the export of a significant product line or a significant amount of our products could cause a significant reduction in net sales.

***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, which 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. 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 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.

***Changes in Financial Accounting Standards Related to Stock Option Expenses are Expected to Have a Significant Effect on our Reported Results***

The FASB recently issued a revised standard that requires that we record compensation expense in the statement of operations for employee stock options using the fair value method. The adoption of the new standard is expected to have a significant effect on our reported earnings, although it will not affect our cash flows, and could adversely impact our ability to provide accurate guidance on our future reported financial results due to the variability of the factors used to establish the value of stock options. As a result, the adoption of the new standard in the second quarter of fiscal year 2006 could impair the value of our common stock and result in greater stock price volatility.

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

As of February 2, 2005, our executive officers and directors and their affiliates beneficially owned an aggregate of approximately 19% 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.

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

Some of the information in this Quarterly Report involves forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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.

During the third quarter, we entered into two foreign currency forward contracts in order to manage the foreign currency exchange risks related to certain operating expenses. At their inception, these foreign currency exchange contracts had maturities of less than 6 months. We do not purchase currency options for trading purposes. As of December 31, 2004, there were two foreign currency exchange contracts outstanding which are intended to reduce the foreign currency risk for amounts payable to vendors in Euros. One foreign exchange contract with a notional amount of $94,000 had a negligible fair value at December 31, 2004. The second foreign exchange contract with a notional amount of $1.9 million, consisting of both a put contract and a call contract, had a fair value of zero as of December 31, 2004. Accordingly, for the three and nine months ended December 31, 2004, we did not record any gains or losses on these foreign currency forward contracts. The fair value of these foreign currency forward contracts as of December 31, 2004, would have changed by $196,000 if the foreign currency exchange rate for the Euro to the U.S. dollar on these forward contracts had changed by 10%.

**Item 4.** ***Controls and Procedures***

We maintain disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified and pursuant to the requirements of the Securities and Exchange Commission's rules and forms.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, noted in its third quarter review that our accounting staff had identified but improperly assessed the accounting consequences for two types of non-routine transactions. These two matters included (1) two separate bill and hold transactions where revenue was not deferred in accordance with the revenue recognition principles of SEC Staff Accounting Bulletin 104, *Revenue Recognition*, and (2) two foreign currency forward purchase contracts that were not properly assessed and designated as hedges in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

Because adjustments to our interim financial statements were required during the third quarter review related to the bill and hold transactions that involved amounts which were material to the interim financial statements, we concluded that a material weakness in our internal control over financial reporting existed as of December 31, 2004. As defined in Public Company Accounting Oversight Board Standard No. 2, a material weakness is "a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected."

Specifically, our management did not have formalized policies and procedures in place that (1) specify how significant and non-routine transactions should be assessed, (2) specify how the accounting conclusions were to be documented and (3) include criteria requiring that certain accounting conclusions be reviewed and approved by a more experienced member of the accounting staff. Our management has also concluded that our inadequate depth of finance and accounting resources contributed to the significance of these internal control deficiencies.

Our management and our independent registered public accounting firm have discussed the areas of weakness with our Audit Committee. The Audit Committee is taking an active role in addressing the deficiencies, including overseeing management's implementation of the remedial measures described below. To this end, we are implementing the following measures to improve our internal control over financial reporting:

- Hiring additional finance and accounting personnel with appropriate experience to, among other things, oversee non-routine transactions to ensure they are properly accounted for in accordance with generally accepted accounting principles.

- Conducting additional training of our personnel concerning revenue recognition accounting principles.

- Establishing and implementing policies and procedures for the identification, assessment, documentation and supervisory review of the accounting for significant and non-routine transactions.

As required by SEC Rule 13a-15(b), we carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2004, the end of the period covered by this Quarterly Report. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that the deficiencies caused our disclosure controls and procedures not to be effective at a reasonable assurance level as of December 31, 2004.

The steps identified above, including the hiring of additional finance and accounting personnel, are designed in part to ensure our accounting with respect to any significant non-routine transactions is in accordance with generally accepted accounting principles. Our management and Audit Committee intend to closely monitor the implementation of our remediation plan and are prepared to take additional measures where necessary to ensure we have the necessary resources in place to properly account for such transactions.

While we believe the foregoing management initiatives should mitigate the internal control deficiencies identified, there can be no assurance the proper resources can be hired, training of personnel can be conducted, policies can be implemented or new controls can be validated on a timely basis in order for management and our independent registered public accounting firm to conclude that our internal control over financial reporting is operating effectively as of our fiscal year-end, April 1, 2005. Other than the foregoing initiatives, 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.

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## 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 – Commitments and 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

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|---|---|
| 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. |

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## 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 9, 2005

/s/ MARK D. DANKBERG

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

/s/ RONALD G. WANGERIN

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

Exhibit 31.1

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 9, 2005

/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 9, 2005

/s/ Ronald G. Wangerin

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Ronald G. Wangerin
Chief Financial Officer

Exhibit 32.1

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 December 31, 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 9, 2005

/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 December 31, 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 9, 2005

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