

VIASAT INC
Form 10-K/A
June 03, 2004

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

**FORM 10-K/A
Amendment No. 1**

(Mark One)

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

For the fiscal year ended March 31, 2003

or

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

For the transition period from to .

Commission File Number (0-21767)

VIASAT, INC.

(Exact name of registrant as specified in its charter)

Delaware

33-0174996

*(State or other jurisdiction of
incorporation or organization)*

(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)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.0001 Par Value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [X] No []

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of September 30, 2002 was approximately \$105,964,230 (based on the closing price on that date for shares of the registrant's Common Stock as reported by the Nasdaq National Market). Shares of Common Stock held by each officer, director and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's Common Stock, \$.0001 par value, as of June 23, 2003 was 26,154,745.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2003 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended March 31, 2003.

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Explanatory Note

This Amendment No. 1 to the Annual Report of ViaSat, Inc. (ViaSat or the Company) on Form 10-K/A for the fiscal year ended March 31, 2003 includes restated consolidated financial statements as of March 31, 2002 and 2003 and for each of the three years in the period ended March 31, 2003. The restatement, as summarized in Notes 2 and 14 to the consolidated financial statements, is to present costs incurred on behalf of Immeon Networks, L.L.C. (Immeon), as Cost of revenues . As discussed in Note 14, the Company acquired a 50% joint venture interest in Immeon in 2001, and was required to perform certain services on behalf of Immeon pursuant to the Joint Venture Agreement and related agreements. These costs were presented as Equity in losses of joint venture in previously issued financial statements. As a result of the restatement, costs incurred on behalf of Immeon that were previously accounted for as Equity in losses of joint venture have been reclassified to Cost of revenues for all periods presented. These

adjustments do not affect previously reported amounts of revenues, net income, earnings per share or assets, liabilities or stockholders' equity for 2001, 2002 or 2003.

This report is being filed to amend and restate only the following items contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2003 originally filed with the Securities and Exchange Commission on June 30, 2003:

Item 6 (Selected Financial Data);

Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations);

Item 8 (Financial Statements and Supplementary Data);

Item 14 (Controls and Procedures); and

Item 15 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K).

This Amendment No. 1 does not reflect events occurring after the June 30, 2003 original filing date of the Company's Annual Report on Form 10-K. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in ViaSat's reports filed with the Securities and Exchange Commission, as amended, for periods subsequent to the date of the original filing of the Annual Report on Form 10-K.

The Company did not amend its Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for periods affected by the restatement that ended prior to March 31, 2003, and the financial statements and related financial information contained in such reports should no longer be relied upon and should be viewed in the context of this report. Refer to Item 8 of this Form 10-K/A for information relating to the effects of the restatement on unaudited quarterly data for fiscal years 2002 and 2003.

Forward-Looking Statements

Portions of this report, particularly Management's Discussion and Analysis of Financial Condition and Results of Operations, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. ViaSat wishes to caution you that there are some factors that could cause actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements, including but not limited to: ViaSat's ability to perform under existing contracts and obtain additional contracts; ViaSat's ability to develop new products that gain market acceptance; changes in product supply, pricing and customer demand; changes in relationships with, or the financial condition of, key customers or suppliers; changes in government regulations; changes in economic conditions globally and in the communications markets in particular; increased competition; potential product liability, infringement and other claims; and other factors affecting the communications industry generally. ViaSat refers you to the documents it files from time to time with the Securities and Exchange Commission, specifically the section titled "Factors That May Affect Future Performance" in ViaSat's Form 10-K. These documents contain and identify other important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements. Stockholders and other readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

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The following table provides selected financial information for us for each of the fiscal years in the five-year period ended March 31, 2003. The data as of and for each of the fiscal years in the five-year period ended March 31, 2003 have been derived from our audited financial statements and include, in the opinion of our management, all adjustments necessary to present fairly the data for those periods. You should consider the financial statement data provided below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes which are included elsewhere in this annual report. All amounts shown are in thousands, except per share data. As discussed in Note 2 to the consolidated financial statements, the Company has restated cost of revenues and other income (loss), net, for the years ended March 31, 2001, 2002 and 2003. This restatement did not impact reported results of operations prior to 2001.

| | Years Ended March 31, | | | | |
|----------------------------------------------|-----------------------|----------|------------|------------|------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| | | | (restated) | (restated) | (restated) |
| Statement of Income Data: | | | | | |
| Revenues | \$71,509 | \$75,880 | \$164,352 | \$195,628 | \$185,022 |
| Cost of revenues | 44,182 | 45,557 | 113,458 | 139,354 | 142,908 |
| Gross profit | 27,327 | 30,323 | 50,894 | 56,274 | 42,114 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 10,093 | 11,269 | 26,482 | 38,153 | 37,858 |
| Independent research and development | 7,639 | 7,590 | 6,173 | 9,415 | 16,048 |
| Acquired in-process research and development | | | 2,334 | 2,550 | |
| Amortization of intangible assets | | | 3,789 | 6,959 | 8,448 |
| Income (loss) from operations | 9,595 | 11,464 | 12,116 | (803) | (20,240) |
| Interest income (expense) | 584 | 913 | 1,647 | 188 | (740) |
| Other income (loss) | | | (76) | (187) | (85) |
| Income (loss) before income taxes | 10,179 | 12,377 | 13,687 | (802) | (21,065) |
| Provision (benefit) for income taxes | 3,883 | 4,471 | 3,422 | (2,959) | (11,433) |
| Net income (loss) | \$ 6,296 | \$ 7,906 | \$ 10,265 | \$ 2,157 | \$ (9,632) |
| Basic net income (loss) per share | \$ 0.39 | \$ 0.49 | \$ 0.48 | \$ 0.09 | \$ (0.37) |

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| | | | | | |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Diluted net income (loss) per share | \$ 0.39 | \$ 0.45 | \$ 0.46 | \$ 0.09 | \$ (0.37) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Shares used in computing basic net income (loss) per share | 15,954 | 16,193 | 21,379 | 23,072 | 26,016 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Shares used in computing diluted net income (loss) per share | 16,345 | 17,422 | 22,537 | 23,954 | 26,016 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balance Sheet Data: | | | | | |
| Cash, cash equivalents and short-term investments | \$20,793 | \$19,641 | \$ 17,721 | \$ 6,620 | \$ 4,269 |
| Working capital | 31,298 | 38,169 | 84,334 | 83,458 | 74,276 |
| Total assets | 50,016 | 61,930 | 169,378 | 238,667 | 237,155 |
| Notes payable, less current portion | 1,243 | 336 | | | |
| Capital lease obligation, less current portion | | | | 174 | 141 |
| Total stockholders' equity | 36,847 | 45,997 | 132,807 | 191,939 | 183,887 |

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

General

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

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. military. By developing cost-effective communications products incorporating our advanced technologies we have continued to grow the markets for our defense products and services. Our current defense products include:

Tactical data links, including the advanced multifunction information distribution system, or MIDS,

Simulation and test equipment, which allows the testing of sophisticated airborne radio equipment without expensive flight exercises,

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, and

Government broadband products and services, which provide innovative solutions to government customers to increase available bandwidth using existing satellite capacity.

The defense market 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 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) U.S. Monolithics, LLC in fiscal year 2002. Our commercial business accounts for approximately 68% of our revenues in fiscal year 2002 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. The overall economic environment has slowed the roll-out of new telecommunication services affecting the satellite portion of this market. However, the development we have accomplished in this area has positioned us well as existing and new service providers aim to meet the growing demand for broadband communication.

To date, our ability to grow and maintain our revenues has depended on obtaining additional sizable contract awards. It is difficult to predict the probability and timing of obtaining these awards. Generally, revenues are

recognized as services are performed using the percentage of completion method, measured primarily by costs incurred to date compared with total estimated costs at completion or based on the number of units delivered. We provide for anticipated losses on contracts by charges to income during the period in which they are first identified.

Our products and services are provided primarily through three types of contracts: fixed-price, time-and-materials and cost-reimbursement contracts. Historically, approximately 94% for fiscal year 2001, 97% for

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fiscal year 2002, and 95% for fiscal year 2003, of our revenues were derived from fixed-price contracts which require us to provide products and services under a contract at a stipulated price. The remainder of our annual revenue was derived from cost-reimbursement contracts, under which we are reimbursed for all actual costs incurred in performing the contract to the extent that such costs are within the contract ceiling and allowable under the terms of the contract, plus a fee or profit, and from time-and-materials contracts which reimburse us for the number of labor hours expended at an established hourly rate negotiated in the contract, plus the cost of materials utilized in providing such products or services.

Historically, a significant portion of our revenues has been generated from funded research and development contracts. The research and development efforts are conducted in direct response to the specific requirements of a customer's order and, accordingly, expenditures related to such efforts are included in cost of sales when incurred and the related funding (which includes a profit component) is included in revenues. Revenues for our funded research and development were approximately \$79.0 million or 48.1% of our total revenues during fiscal year 2001, \$75.2 million or 38.4% of our total revenues during fiscal year 2002 and \$74.1 million or 40.0% of our total revenues during fiscal year 2003.

We also invest in independent research and development, which is not directly funded by a third party. We expense independent research and development costs as they are incurred. Independent research and development expenses consist primarily of salaries and other personnel-related expenses, supplies, prototype materials, testing and certification related to research and development programs. Independent research and development expenses were approximately 3.8% of revenues during fiscal year 2001, 4.8% of revenues during fiscal year 2002, and 8.7% of revenues during fiscal year 2003. As a government contractor, we are able to recover a portion of our independent research and development expenses pursuant to our government contracts.

Critical Accounting Policies and Estimates

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

Revenue recognition

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

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

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Capitalized software development costs

Costs of developing software for sale are charged to research and development expense when incurred, until technological feasibility has been established. Software development costs incurred from the time technological feasibility is reached until the product is available for general release to customers are capitalized and reported at the lower of unamortized cost or net realizable value. Once the product is available for general release, the software development costs are amortized based on the ratio of current to future revenue for each product with an annual minimum equal to straight-line amortization over the remaining estimated economic life of the product not to exceed five years. The determination of net realizable value involves judgment and estimates of future revenues to be derived from a product, as well as estimates of estimated future costs of manufacturing that product. We use our experience in the marketplace in making judgments in estimating net realizable value, but our estimates may differ from the actual outcome. We periodically assess the assumptions underlying our estimates and, if necessary, we would adjust the carrying amount of capitalized software development costs downward to our new estimate of net realizable value.

We capitalized costs related to software developed for resale of \$5.3 million for the fiscal year ended March 31, 2003, \$9.2 million for the fiscal year ended March 31, 2002 and \$3.4 million for the fiscal year ended March 31, 2001. Amortization expense of software development costs was \$1.1 million for 2003, \$320,000 for 2002 and \$0 for 2001. These software development costs are part of other assets on the balance sheet and the related amortization expense is recorded as a charge to cost of revenues on the statement of operations.

Allowance for doubtful accounts

We make estimates of the collectibility of our accounts receivable based on historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Historically, our bad debts have been minimal; a contributing factor to this is that a significant portion of our sales have been to the U.S. Government. More recently, commercial customers are making up a larger part of our revenues. Except for ORBCOMM Global, L.P., we have experienced a good collection record from our commercial customers. See the Liquidity and Capital Resources section of this MD&A for more information on ORBCOMM. Our accounts receivable balance was \$81.0 million, net of allowance for doubtful accounts of \$673,000 as of March 31, 2003 and our accounts receivable balance was \$80.2 million, net of allowance for doubtful accounts of \$487,000 as of March 31, 2002.

Allowance for warranty reserves

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

Impairment of goodwill

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. 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. SFAS No. 142 requires goodwill to be tested for impairment annually at the same time every 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. The forecast of future cash flows are based on our best estimate of the future revenues and operating costs, based primarily on 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.

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The cash flow forecasts are adjusted 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. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its 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. No such impairments have been identified by us.

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 March 31, 2003 is dependent on our ability to generate sufficient future income. We believe that it is more likely than not that our net deferred tax assets will be realized based on forecasted income. The amount of the net deferred tax assets actually realized could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. We have incurred losses from operations over the past several quarters. If our operating results do not improve significantly in the near term and if the outlook remains unclear we will be required to establish a valuation allowance against all of our net deferred tax assets based upon applicable accounting criteria. To the extent we establish a valuation allowance, an expense will be recorded within the provision for income taxes line in the Statement of Operations.

Results of Operations

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

| | Years Ended March 31, | | |
|----------------------------------------------|------------------------------|-------------|-------------|
| | 2001 | 2002 | 2003 |
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 69.0 | 71.2 | 77.2 |
| Gross profit | 31.0 | 28.8 | 22.8 |
| Operating expenses: | | | |
| Selling, general and administrative | 16.1 | 19.5 | 20.4 |
| Independent research and development | 3.8 | 4.8 | 8.7 |
| Acquired in-process research and development | 1.4 | 1.3 | |
| Amortization of intangible assets | 2.3 | 3.6 | 4.6 |
| Income (loss) from operations | 7.4 | (0.4) | (10.9) |

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| | | | |
|--------------------------------------|-----------------|-----------------|-----------------|
| Income (loss) before income taxes | 8.3 | (0.4) | (11.4) |
| Provision (benefit) for income taxes | 2.1 | (1.5) | (6.2) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net income (loss) | 6.2 | 1.1 | (5.2) |
| | <u> </u> | <u> </u> | <u> </u> |

Fiscal Year 2003 Compared to Fiscal Year 2002

Revenues. Revenues decreased 5.4% from \$195.6 million for fiscal year 2002 to \$185.0 million for fiscal year 2003. The decrease was largely due to lower revenues from commercial broadband activities and commercial antenna system sales, partially offset by higher sales volume from certain government products.

Gross Profit. Gross profit decreased 25.2% from \$56.3 million (28.8% of revenues) for fiscal year 2002 to \$42.1 million (22.8% of revenues) for fiscal year 2003. This decrease in gross profit was primarily due to lower sales and related margin, earnings charges from contract overruns on fixed price development contracts, lower gross profit yielded on certain VSAT product sales, and a \$2.7 million charge related to Astrolink International LLC. See

Liquidity and Capital Resources for a more detailed explanation of Astrolink. These decreases were partially offset by the margin produced by higher sales volume in the government product lines and higher margins experienced in both the government and VSAT product lines related to manufacturing efficiencies.

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Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses decreased 0.8% from \$38.2 million (19.5% of revenues) for fiscal year 2002 to \$37.9 million (20.5% of revenues) for fiscal year 2003. Included in SG&A for fiscal year 2002 was approximately \$4.8 million for the write-off of receivables related to ORBCOMM. See Liquidity and Capital Resources for a more detailed explanation of ORBCOMM. Excluding the charge relating to ORBCOMM, SG&A expenses increased 13.5% from \$33.4 million (17.1% of revenues) for fiscal year 2002 to \$37.9 million (20.5% of revenues) for fiscal year 2003. The increase was primarily related to higher bid and proposal costs to pursue and secure new business, and an increase in legal costs related to the claim against Scientific-Atlanta, partially offset by a decrease in sales and marketing expenses. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Some SG&A expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

Independent Research and Development. Independent research and development (IR&D) expenses increased 70.2% from \$9.4 million (4.8% of revenues) for fiscal year 2002 to \$16.0 million (8.7% of revenues) for fiscal year 2003. This increase was primarily due to reduced customer funded research and development and delays in certain program awards, which resulted in continued development under ViaSat funding. In addition, U.S. Monolithics current products are primarily in the development phase and a full twelve months of expenses of \$2.4 million for these products were included in our fiscal year 2003 results versus only one quarter of expenses of \$0.9 million that were included in our fiscal 2002 results.

Acquired In-Process Research and Development. Purchased in-process research and development (IPR&D) charge resulted from the acquisition of Comsat Laboratories and accounted for \$2.5 million (1.3% of revenues) for fiscal year 2002.

An independent valuation was performed and used as an aid in determining the fair value of the purchased IPR&D projects and other intangibles. Projects were identified in which there were research and development efforts underway where technological feasibility had not been reached.

At the time of the acquisition, Comsat Laboratories was developing a satellite network terminal that expands the frequencies on which an existing terminal could operate. The date when the project was expected to reach technological feasibility at the time of the acquisition was September 2001. We estimated based on man hours incurred versus man hours required to complete the project that at the acquisition date the project was 80% complete and would require approximately \$900,000 to complete. Using the income approach, the value calculated for the IPR&D associated with the satellite network terminal was \$2.5 million. The project has proceeded since the acquisition and is now in production.

Amortization of Intangible Assets. The acquisition of the Satellite Networks Business in fiscal year 2001 and Comsat Laboratories and U.S. Monolithics in fiscal year 2002 were accounted for by the purchase method of accounting. The dates of acquisition of Comsat Laboratories and U.S. Monolithics were both after June 30, 2001 and were accounted for under SFAS 141. Therefore, the goodwill of those two acquisitions has not been subject to amortization. The intangible assets are being amortized over useful lives ranging from two to ten years. Below is the allocation of the intangible assets from acquisitions, including goodwill and the amortization expense for the years ended March 31, 2002 and 2003:

**Amortization
for the
Years Ended
March 31,**

| | Satellite Networks | Comsat Laboratories | U.S. Monolithics | Total | 2002 | 2003 |
|----------------------------------------------|-------------------------------|--------------------------------|-----------------------------|-----------------|----------------|----------------|
| (In thousands) | | | | | | |
| Intangible Assets | | | | | | |
| Existing Technology | \$ 9,845 | \$ 3,850 | \$13,075 | \$26,770 | \$2,186 | \$3,799 |
| Contracts and relationships | 9,686 | | 50 | 9,736 | 1,152 | 1,102 |
| Non-compete agreements | | 5,350 | 2,600 | 7,950 | 1,320 | 2,303 |
| Other amortizable assets | | 3,800 | 3,075 | 6,875 | 558 | 1,244 |
| Total intangible assets | 19,531 | 13,000 | 18,800 | 51,331 | 5,216 | 8,448 |
| Goodwill | | | | | | |
| Acquired workforce | 5,477 | | | 5,477 | 1,097 | |
| Goodwill | 4,517 | 1,386 | 11,451 | 17,354 | 646 | |
| Total goodwill | 9,994 | 1,386 | 11,451 | 22,831 | 1,743 | |
| Totals intangible assets and goodwill | \$29,525 | \$14,386 | \$30,251 | \$74,162 | \$6,959 | \$8,448 |

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As a result of adopting SFAS 142 for our fiscal year ended March 31, 2003, we no longer amortize the intangibles assets Acquired workforce of \$5.5 million or Goodwill of \$4.5 million acquired in the Satellite Networks Business acquisition. Acquired workforce does not meet the separability requirements of SFAS 141 and was subsumed into goodwill beginning April 1, 2002.

The estimated amortization expense of long-lived intangible assets for the next five fiscal years is as follows:

| | Amortization |
|-------------------------------|---------------------------|
| | (In thousands) |
| Expected for fiscal year 2004 | \$ 7,842 |
| Expected for fiscal year 2005 | 6,642 |
| Expected for fiscal year 2006 | 6,048 |
| Expected for fiscal year 2007 | 5,378 |
| Expected for fiscal year 2008 | 4,508 |

Interest Expense. Interest expense increased from \$370,000 for fiscal year 2002 to \$856,000 for fiscal year 2003. The increase resulted from higher outstanding borrowings coupled with higher loan fees in fiscal year 2003. At March 31, 2002 there were \$9.9 million in outstanding borrowings under our line of credit. At March 31, 2003 there were \$10.0 million in outstanding borrowings under our line of credit.

Interest Income. Interest income decreased from \$558,000 for fiscal year 2002 to \$116,000 for fiscal year 2003. This decrease resulted from lower average invested cash balances and lower yields.

Equity in Loss of Joint Venture. Equity in loss of joint venture was \$90,000 in fiscal year 2002. This was related to the loss from U.S. Monolithics for the period of approximately three weeks where ViaSat did not have full ownership.

Provision (Benefit) for Income Taxes. Our effective income tax rate was a benefit 54% in fiscal year 2003 compared to a benefit of 369% in fiscal year 2002. We generate research and development credits that are not variable to income, so when the income or loss before tax is close to zero as it was in fiscal year 2002, the tax provision/benefit percentage will be impacted to a high degree by the credits. Therefore, the annual effective tax rate for fiscal year 2003 cannot be meaningfully compared to the effective tax rate for fiscal year 2002.

Our Segment Results Fiscal Year 2003 Compared to Fiscal Year 2002**Government Segment**

Revenues from the government segment increased 31.3% from \$62.7 million for fiscal year 2002 to \$82.3 million for fiscal year 2003. The increase in revenues was primarily related to our tactical data links, mobile satellite communications and secure networking product lines.

Segment operating profit from the government segment increased 36.5% from \$8.5 million for fiscal year 2002 to \$11.6 million for fiscal year 2003. The increase in gross operating profit was primarily related to the increased revenue from our tactical data links, mobile satellite communications and secure networking product lines.

Commercial Segment

Revenues from the commercial segment decreased 22.7% from \$132.9 million for fiscal year 2002 to \$102.7 million for fiscal year 2003. The decrease was primarily due to lower revenues from broadband and satellite ground systems product lines.

Segment operating profit from the commercial segment decreased from a profit of \$618,000 for fiscal year 2002 to a loss of \$22.1 million for fiscal year 2003. The decrease in gross operating profit was primarily related to lower revenues from broadband and satellite ground systems product lines, lower gross profit yielded on certain fixed price commercial broadband development contracts and VSAT product sales, an increase in company funded research and development, which included \$2.4 million by U.S. Monolithics, a January 2001 acquisition, the \$2.7 million charge related to Astrolink and increased legal costs related to the claim against Scientific -Atlanta. Fiscal year 2002 included \$4.8 million for the write-off of receivables related to ORBCOMM.

Table of Contents**Fiscal Year 2002 Compared to Fiscal Year 2001**

Revenues. Revenues increased 19.0% from \$164.4 million for fiscal year 2001 to \$195.6 million for fiscal year 2002. The increase was largely due to higher revenues from commercial broadband activities and commercial product sales, aided by the acquisition of Comsat Laboratories in fiscal year 2002, and by higher sales volume from certain government products. These increases were partially offset by a decrease in revenues resulting from the completion of certain development contracts.

Gross Profit. Gross profit increased 10.6% from \$50.9 million (31.0% of revenues) for fiscal year 2001 to \$56.3 million (28.8% of revenues) for fiscal year 2002. This increase in gross profit was primarily due to higher volumes of commercial product sales boosted in part by the acquisition of Comsat Laboratories, by higher sales volume from broadband development programs and from increased government product sales. These increases were partially offset by lower gross profit resulting from the completion of certain development programs. The decrease in gross profit as a percentage of revenue, 31.0% for fiscal year 2001 versus 28.8% for fiscal year 2002, was primarily related to our contract mix in 2002, which included more development programs which have a historically lower profit margin than do production programs.

Selling, General and Administrative Expenses. SG&A expenses increased 44.2% from \$26.5 million (16.1% of revenues) for fiscal year 2001 to \$38.2 million (19.5% of revenues) for fiscal year 2002. Of this increase, approximately \$4.8 million was due to the write-off of receivables related to ORBCOMM. See *Liquidity and Capital Resources* for a more detailed explanation of ORBCOMM. Before the charge relating to ORBCOMM the SG&A expenses were \$33.4 million (17.1% of revenues) for fiscal year 2002, a 26.0% increase over fiscal year 2001. The remaining increase in SG&A expenses was due to the addition of expenses for Comsat Laboratories and U.S. Monolithics, both acquired in fiscal year 2002, the integration costs incurred to integrate our recent acquisitions, for marketing commercial products, increased business development, and additional administrative staffing to support our continued growth.

Independent Research and Development. IR&D expenses increased 51.6% from \$6.2 million (3.8% of revenues) for fiscal year 2001 to \$9.4 million (4.8% of revenues) for fiscal year 2002. This increase was primarily due to IR&D spending in our new acquisitions of Comsat Laboratories and U.S. Monolithics during fiscal year 2002.

Acquired In-Process Research and Development. IPR&D charges result primarily from two recently completed acquisitions. The acquisition of the Satellite Networks Business accounted for \$2.3 million (1.4% of revenues) for fiscal year 2001 and the acquisition of Comsat Laboratories accounted for \$2.5 million (1.3% of revenues) for fiscal year 2002.

An independent valuation was performed and used as an aid in determining the fair value of the purchased IPR&D projects and other intangibles. Projects were identified in which there were research and development efforts underway where technological feasibility had not been reached.

The Satellite Networks Business is developing a next generation mobile subscriber communicator. This next generation product contains a new chipset, new connectors, added functionality, bigger programming space and a longer battery life than the legacy product and will be sold at a lower price. The estimated completion date at the time of the acquisition was November 2000. We estimated based on man hours incurred versus man hours required to complete the project that at the acquisition date the project was 77% complete and would require approximately \$500,000 to complete. Using the income approach the value calculated for the IPR&D associated with the mobile subscriber communicator was \$1.6 million. The market for this product has not materialized to the extent anticipated and as a result, the completion date has been delayed. The project has been put on hold and additional funds will not be spent until the market develops.

The Satellite Networks Business also has the SkyRelay and the Skylinx products. The SkyRelay development of a next generation terminal included a terminal with newer interfaces, an additional IP port and consolidated functionality onto a single card. At the time of acquisition, the project completion was expected to be in June of 2001 and we estimated based on man hours incurred versus man hours required to complete the project that the project was estimated to be 15% complete and would require approximately \$6.0 million to complete. Using the income approach the value calculated for the IPR&D associated with SkyRelay was \$300,000. The Skylinx related IPR&D projects are the Mesh Working and 2mbps Channel Unit. Based on the same completion criteria as SkyRelay, it was estimated the Skylinx related IPR&D was 60% complete at the date of acquisition and would require approximately \$385,000 to complete. Both projects were completed in fiscal 2002. Also using the income approach, the value calculated for IPR&D associated with Skylinx was \$400,000.

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At the time of the acquisition, Comsat Laboratories was developing a satellite network terminal that expands the frequencies on which an existing terminal could operate. The date when the project was expected to reach technological feasibility at the time of the acquisition was September 2001. We estimated based on man hours incurred versus man hours required to complete the project that at the acquisition date the project was 80% complete and would require approximately \$900,000 to complete. Using the income approach the value calculated for the IPR&D associated with the satellite network terminal was \$2.5 million. The project has proceeded since the acquisition and is now in production.

Amortization of Intangible Assets. The acquisition of the Satellite Networks Business in fiscal year 2001 and Comsat Laboratories and U.S. Monolithics in fiscal year 2002 were accounted for by the purchase method of accounting. The dates of acquisition of Comsat Laboratories and U.S. Monolithics were both after June 30, 2001 and were accounted for under SFAS 141. Therefore, the goodwill of those two acquisitions has not been subject to amortization. The intangible assets are being amortized over useful lives ranging from two to ten years. Below is the allocation of the intangible assets from acquisitions, including goodwill and the amortization expense for the years ended March 31, 2001 and 2002:

| | Satellite Networks | Comsat Laboratories | U.S. Monolithics | Total | Amortization for the Years Ended March 31, | |
|------------------------------------------|-----------------------|------------------------|---------------------|----------|-----------------------------------------------------|---------|
| | | | | | 2001 | 2002 |
| (In thousands) | | | | | | |
| Intangible Assets | | | | | | |
| Existing Technology | \$ 9,845 | \$ 3,850 | \$13,075 | \$26,770 | \$1,183 | \$2,186 |
| Contracts and relationships | 9,686 | | 50 | 9,736 | 1,010 | 1,152 |
| Non-compete agreements | | 5,350 | 2,600 | 7,950 | | 1,320 |
| Other amortizable assets | | 3,800 | 3,075 | 6,875 | | 558 |
| Total intangible assets | 19,531 | 13,000 | 18,800 | 51,331 | 2,193 | 5,216 |
| Goodwill | | | | | | |
| Acquired workforce | 5,477 | | | 5,477 | 1,004 | 1,097 |
| Goodwill | 4,517 | 1,386 | 11,451 | 17,354 | 592 | 646 |
| Total goodwill | 9,994 | 1,386 | 11,451 | 22,831 | 1,596 | 1,743 |
| Totals intangible assets and goodwill | \$29,525 | \$14,386 | \$30,251 | \$74,162 | \$3,789 | \$6,959 |

Interest Expense. Interest expense increased from \$78,000 for fiscal year 2001 to \$370,000 for fiscal year 2002. Total outstanding equipment loans were \$336,000 at March 31, 2001. At March 31, 2002 there were no outstanding equipment loans and \$9.9 million in outstanding borrowings under our line of credit.

Interest Income. Interest income decreased from \$1.7 million for fiscal year 2001 to \$558,000 for fiscal year 2002. This decrease resulted from lower average invested cash balances and lower yields.

Equity in Loss of Joint Venture. Equity in loss of joint venture was \$90,000 in fiscal year 2002. This was related to the loss from U.S. Monolithics for the period when ViaSat did not maintain a controlling ownership interest.

Provision (Benefit) for Income Taxes. Our effective income tax rate decreased from a provision of 25% for fiscal year 2001 to a benefit of 369% for fiscal year 2002. The decrease in effective tax results primarily from a change in estimated research and development tax credit for the current and prior year. The change in estimate was made based upon historical detailed information received from Scientific-Atlanta in conjunction with the Satellite Networks Business acquisition for calculating base period percentages.

Our Segment Results Fiscal Year 2002 Compared to Fiscal Year 2001

Government Segment

Revenues from the government segment increased 0.5% from \$62.4 million for fiscal year 2001 to \$62.7 million for fiscal year 2002. The change is a combination of increased revenue from mobile satellite communications and secure networking product lines and a decrease in revenues from the tactical data links product line.

Segment operating profit from the government segment decreased 8.6% from \$9.3 million for fiscal year 2001 to \$8.5 million for fiscal year 2002. The decrease in gross operating profit was primarily related to the increased revenue from our mobile satellite communications and secure networking product lines partially offset by a decrease in tactical data links gross operating profit reflecting a decrease in revenue over the same period.

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Commercial Segment

Revenues from the commercial segment increased 30.4% from \$101.9 million for fiscal year 2001 to \$132.9 million for fiscal year 2002. The increase was primarily due to the acquisition of Comsat Laboratories and higher revenues from broadband programs and satellite ground systems product lines.

Segment operating profit from the commercial segment decreased from \$8.4 million for fiscal year 2001 to \$618,000 for fiscal year 2002. The decrease in gross operating profit was primarily related to the addition of expenses from the integration costs incurred to integrate our recent acquisitions of Comsat Laboratories and U.S. Monolithics, both acquired in fiscal year 2002, marketing and business development, the \$4.8 million write-off of receivables related to ORBCOMM, additional IR&D spending in Comsat Laboratories and U.S. Monolithics and lower gross profit yielded on certain VSAT products and satellite ground systems product lines, partially offset by increased operating profit generated from increased commercial broadband program revenues.

Backlog

As of March 31, 2003, we had firm backlog of \$213.6 million, of which \$179.6 million was funded. This compares to firm backlog of \$139.4 million at March 31, 2002, of which \$124.2 million was funded, not including options of \$48.8 million. Of the \$213.6 million in firm backlog at March 31, 2003, approximately \$128.4 million is expected to be delivered in fiscal year 2004 and the balance of approximately \$85.2 million is expected to be delivered in fiscal year 2005 and thereafter. Total new awards for both commercial and defense products were \$259.2 million for fiscal year 2003 compared to \$191.9 million for fiscal year 2002. We include in our backlog only those orders for which we have accepted purchase orders. Our firm backlog does not include contract options of \$44.9 million. These options include \$37.2 million of Indefinite Delivery/Indefinite Quantity (IDIQ) contracts for our UHF DAMA satellite communications products and \$7.7 million of IDIQ contracts for our other products.

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, purchase orders 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 purchase order.

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

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 each segment 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 segments, program performance is very important to 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, ViaSat's 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.

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Cash provided by operating activities in fiscal year 2003 was \$13.7 million as compared to cash used in operating activities in fiscal year 2002 of \$3.9 million. The increase in cash provided by operating activities was primarily related to improved program performance in both the commercial and government segments, resulting in contract milestone achievements that provided cash receipts, and an increase in customer advances of approximately \$8.1 million, primarily in the commercial segment.

Cash used in investing activities in fiscal year 2003 was \$17.6 million as compared to cash used in investing activities in 2002 of \$45.8 million. We acquired \$12.2 million in equipment and invested \$5.3 million in capitalized software in fiscal 2003 compared to \$15.6 million in equipment and \$9.2 million in capitalized software in fiscal 2002, excluding acquisitions. During fiscal year 2002, we used \$20.8 million of cash in the acquisitions of Comsat Laboratories and U.S. Monolithics.

Cash provided by financing activities in fiscal year 2003 was \$1.6 million as compared to cash provided by financing activities in 2002 of \$38.5 million. This decrease was primarily the result of completing a public stock offering for \$27.1 million and \$9.9 million in net cash proceeds from our line of credit in fiscal 2002.

At March 31, 2003, we had \$4.3 million in cash, cash equivalents and short-term investments, \$74.3 million in working capital and \$10.0 million in outstanding borrowings under our line of credit. We also had \$4.4 million outstanding under standby letters of credit leaving borrowing availability under the line of credit of \$5.6 million. At March 31, 2002, we had \$6.6 million in cash and cash equivalents and short-term investments, \$83.5 million in working capital and \$9.9 million in outstanding borrowings under our line of credit.

On February 10, 2003, we executed an Amended and Restated Revolving Loan Agreement of \$20 million with Union Bank of California and Comerica Bank - California. Under the revolving loan facility we have the option to borrow at the bank's prime rate or at LIBOR plus, in each case, an applicable margin. The revolving facility contains financial covenants that set maximum debt to EBITDA limits, minimum quarterly EBITDA limits, minimum quick ratio limit and a minimum tangible net worth limit. The borrowing commitment is also limited by ViaSat's level of accounts receivable and inventory. The revolving loan facility's maturity date is September 30, 2003 and is collateralized by cash, accounts receivable and inventory of ViaSat.

On January 19, 2003 we reached a settlement with Astrolink International LLC with respect to contractual termination payments for contracts that were terminated on December 5, 2001. We received a cash payment of \$6.5 million. Depending on the implementation of the Astrolink business plan, we may also receive additional consideration in the form of cash, a consulting contract and satellite airtime from the new Astrolink business providing aggregate additional value of approximately \$4.5 million under specified circumstances or may receive certain non-cash consideration in the form of capital equipment under other circumstances. The assets at risk prior to the Astrolink settlement totaled \$9.2 million and included accounts receivable due from Astrolink in the amount of approximately \$6.3 million, inventory specific to Astrolink of \$0.4 million and \$2.5 million in prepaid airtime on Astrolink satellites. The value of the future consideration from the settlement will depend on the new Astrolink business. Due to the contingent nature and uncertainty of the value of the additional consideration to be received by us pursuant to the settlement, we have reduced our assets related to Astrolink to zero. As a result, we have taken a charge through cost of goods sold in the fiscal year ended March 31, 2003 of \$2.7 million, which is the difference between the assets at risk of \$9.2 million and the cash received of \$6.5 million.

On September 15, 2000 ORBCOMM Global, L.P. and seven of its subsidiaries filed a voluntary petition for Chapter 11 relief in the United States Bankruptcy Court for the District of Delaware as part of its efforts to restructure and reorganize its business. ORBCOMM has continued its efforts to maintain and operate its network of low-Earth orbit (LEO) satellites and related ground facilities while it restructures its operations. Although discussions continued with ORBCOMM, we no longer considered it reasonably possible that our assets at risk would be recovered. The

amount at risk was accounts receivable of \$4.8 million, and a charge to selling, general and administrative costs was made for this amount and was included in our results for fiscal year ended March 31, 2002.

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

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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.

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

| | For the Fiscal Years Ending March 31, | | | | |
|---------------------------|----------------------------------------------|-----------------------|------------------|------------------|-----------------------|
| | Total | 2004 | 2005-2007 | 2008-2009 | After 2009 |
| | | (In thousands) | | | |
| Operating Leases | \$22,411 | \$ 5,304 | \$10,253 | \$5,140 | \$1,714 |
| Capital leases | 141 | 141 | | | |
| Lines of credit | 9,950 | 9,950 | | | |
| Standby letters of credit | 4,419 | 4,419 | | | |
| Total | \$36,921 | \$19,814 | \$10,253 | \$5,140 | \$1,714 |

In addition, we have a services agreement with Immeon Networks, L.L.C. to perform services for the operation of Immeon. We maintain an obligation to provide service to Immeon customers through the end of its customer contracts in 2004. See Note 14 to our consolidated financial statements for a more detailed explanation of Immeon.

We are currently a party to various government and commercial contracts which require us to meet performance covenants and project milestones. Under the terms of these contracts, failure by us to meet such performance covenants and milestones permit the other party to terminate the contract and, under certain circumstances, recover liquidated damages or other penalties. We are currently not in compliance (or in the past were not in compliance) with the performance or milestone requirements of certain of these contracts. Historically, our customers have not elected to terminate such contracts or seek liquidated damages from us; therefore, we have not accrued for any potential liquidated damages or penalties. However, there can be no assurance that our customers will not elect to terminate such contracts or seek liquidated damages or penalties from us in the future.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143 *Accounting for Asset Retirement Obligation*, which became effective on January 1, 2003. This standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. We have determined that the implementation of this standard will not have a material effect on our consolidated

financial statements.

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

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 are effective for us beginning in our second quarter of fiscal 2004. We believe that the adoption of this standard will not have a material effect on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity's product warranty liabilities. We will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. We do not expect the adoption of FIN 45 to have a material effect on our results of operations or financial condition.

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In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, an amendment to SFAS No. 123, which provides alternative transition methods to the expensing of employee stock-based compensation under SFAS No. 123. We are not required to adopt the fair value method prescribed by SFAS No. 123 and, accordingly, will continue to account for stock-based compensation under the intrinsic value method in accordance with APB Opinion No. 25. SFAS No. 148 also requires new disclosure requirements that are incremental to SFAS No. 123, which have been included in Note 1 to our consolidated financial statements under Stock-based Compensation.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) *Consolidation of Variable Interest Entities*. FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46 requires that its provisions are effective immediately for all arrangements entered into after January 31, 2003. We do not have any variable interest entities created after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the FIN 46 provisions are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003.

In April 2003, FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003. We do not expect the adoption of this statement to have a material effect on our operating results or financial position.

Item 8. Financial Statements and Supplementary Data

The restated consolidated financial statements at March 31, 2002 and 2003, and for each of the three years in the period ended March 31, 2003 and the Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, are included in this annual report on pages F-1 through F-24.

Summarized Quarterly Data (Unaudited)

The following financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for the fair statement of the results for the interim periods. As discussed in Note 2 to the consolidated financial statements, the Company has restated cost of revenues and other income (loss), net, for the years ended March 31, 2001, 2002 and 2003. Summarized quarterly data for fiscal years 2002 and 2003 are as follows and include the restatement:

| | <u>1st Quarter</u> | <u>2nd Quarter</u> | <u>3rd Quarter</u> | <u>4th Quarter</u> |
|-------------------------------|---------------------------------------|------------------------|--------------------|--------------------|
| | (restated) | (restated) | (restated) | (restated) |
| | (In thousands, except per share data) | | | |
| 2002 | | | | |
| Revenues | \$48,834 | \$49,524 | \$50,089 | \$47,181 |
| Gross profit | 14,168 | 14,830 | 15,329 | 11,947 |
| Income (loss) from operations | 3,859 | 576 | 1,711 | (6,949) |
| Net income (loss) | 2,704 | 447 | 2,439 | (3,433) |

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| | | | | |
|-------------------------------------|----------|----------|----------|----------|
| Basic net income (loss) per share | 0.12 | 0.02 | 0.11 | (0.13) |
| Diluted net income (loss) per share | 0.12 | 0.02 | 0.10 | (0.13) |
| 2003 | | | | |
| Revenues | \$42,863 | \$39,497 | \$48,962 | \$53,700 |
| Gross profit | 12,970 | 6,953 | 8,781 | 13,410 |
| Loss from operations | (3,577) | (7,536) | (4,950) | (4,177) |
| Net loss | (1,582) | (4,155) | (2,612) | (1,283) |
| Basic net loss per share | (0.06) | (0.16) | (0.10) | (0.05) |
| Diluted net loss per share | (0.06) | (0.16) | (0.10) | (0.05) |

Included in gross profit in the third quarter of the fiscal year ended March 31, 2003 is a \$2.7 million charge related to Astrolink and included in selling, general and administrative expenses for the fourth quarter of the fiscal year ended March 31, 2002 is approximately \$4.8 million due to the write-off of receivables related to ORBCOMM See Liquidity and Capital Resources for a more detailed explanation of Astrolink and ORBCOMM.

Table of Contents**PART III****Item 14. 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. 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 March 31, 2003, the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2003.

During our last fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART IV**Item 15. Exhibits, Financial Statement Schedules, and Reports On Form 8-K**

(a) Documents filed as part of the report:

| | Page Number |
|-------------------------------------------------------------------------------------------------------|------------------------|
| (1) Report of Independent Registered Public Accounting Firm | F-1 |
| Consolidated Balance Sheets as of March 31, 2002 and 2003 | F-2 |
| Consolidated Statements of Operations for the years ended March 31, 2001, 2002 and 2003 (restated) | F-3 |
| Consolidated Statements of Cash Flows for the years ended March 31, 2001, 2002 and 2003 (restated) | F-4 |
| Consolidated Statements of Stockholders' Equity for the years ended March 31, 2001, 2002 and 2003 | F-5 |
| Notes to the Consolidated Financial Statements (restated) | F-6 |

(2) Schedule II Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits

**Exhibit
Numbers**

Description of Exhibit

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- 2.1 Asset Purchase Agreement, dated January 18, 2000, by and between ViaSat, Inc. and Scientific-Atlanta, Inc.(1)
- 3.1 Bylaws.(2)
- 3.2 Second Amended and Restated Certificate of Incorporation of ViaSat, Inc.(12)
- 4.1 Form of Common Stock Certificate.(2)
- 10.1 Warrants to purchase shares of common stock of ViaSat, Inc. issued to Scientific-Atlanta, Inc.(3)
- 10.2 Warrants to purchase shares of common stock of ViaSat, Inc. issued to COMSAT Corporation.(16)
- 10.3 Form of Invention and Confidential Disclosure Agreement by and between ViaSat, Inc. and each employee of ViaSat, Inc.(2)
- 10.4 ViaSat, Inc. 1993 Stock Option Plan (the 1993 Stock Option Plan).(2)
- 10.5 First Amendment to the 1993 Stock Option Plan.(3)

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| Exhibit Numbers | Description of Exhibit |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.6 | Form of Incentive Stock Option Agreement under the 1993 Stock Option Plan.(2) |
| 10.7 | Form of Nonqualified Stock Option Agreement under the 1993 Stock Option Plan.(2) |
| 10.8 | The Amended and Restated 1996 Equity Participation Plan of ViaSat, Inc. (the 1996 Equity Participation Plan)(12) |
| 10.9 | Form of Incentive Stock Option Agreement under the 1996 Equity Participation Plan.(2) |
| 10.10 | Form of Nonqualified Stock Option Agreement under the 1996 Equity Participation Plan.(2) |
| 10.11 | The ViaSat, Inc. Employee Stock Purchase Plan, as amended.(8) |
| 10.12 | ViaSat, Inc. 401(k) Profit Sharing Plan.(2) |
| 10.13 | Loan Agreement, dated as of September 15, 1995, by and between ViaSat, Inc. and Union Bank.(2) |
| 10.14 | Waiver and First Amendment to Loan Agreement, dated as of March 31, 1997, by and between ViaSat, Inc. and Union Bank.(2) |
| 10.15 | Revolving/Term Loan Agreement dated June 21, 2001 among ViaSat, Inc., the Lenders and Union Bank of California, N.A., as Administrative Agent.(15)(24) |
| 10.16 | Amendment No. 1 to Revolving/Term Loan Agreement, dated March 29, 2002 by and among Union Bank of California, US Bank National Association and ViaSat, Inc.(19) |
| 10.17 | Waiver and Amendment No. 2 to Revolving/Term Loan Agreement executed July 10, 2002 by and among Union Bank of California, US Bank National Association and ViaSat, Inc.(19)(24) |
| 10.18 | Amendment No. 3 to Revolving/Term Loan Agreement executed October 29, 2002 by and among Union Bank of California, US Bank National Association and ViaSat, Inc.(20)(24) |
| 10.19 | Amendment No. 4 to Revolving/Term Loan Agreement executed November 14, 2002 by and among Union Bank of California, Comerica Bank California and ViaSat, Inc.(21)(24) |
| 10.20 | Amended and Restated Revolving Loan Agreement executed February 10, 2003 by and among Union Bank of California, Comerica Bank California and ViaSat, Inc.(22)(24) |
| 10.21 | Lease, dated March 24, 1998, by and between W9/LNP Real Estate Limited Partnership and ViaSat, Inc. (6155 El Camino Real, Carlsbad, California).(5) |
| 10.22 | |

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Amendment to Lease, dated January 4, 1999, by and between Prentiss Properties Acquisition Partners, L.P. and ViaSat, Inc. (The Campus, Carlsbad, California).(6)

- 10.23 Amendment to Lease, dated January 4, 1999, by and between Prentiss Properties Acquisition Partners, L.P. and ViaSat, Inc. (5962 La Place Court, Carlsbad, California).(6)
- 10.24 Lease, dated June 18, 1999, by and between Nagog Development Company and ViaSat, Inc. (125 Nagog Park, Acton, Massachusetts, 01720).(10)
- 10.25 Supply & Services Contract, dated June 2, 1996, by and between HCL Comnet Systems and Services Limited and ViaSat, Inc.(2)
- 10.26 Award/Contract, effective March 29, 1996, as amended, issued by Electronic Systems Center/MCK Air Force Materiel Command, USAF to ViaSat, Inc.(2)
- 10.27 Amendment of Award/Contract, effective February 24, 1997, issued by Electronic Systems Center/MCK Air Force Materiel Command, USAF to ViaSat, Inc.(3)
- 10.28 Award/Contract, effective October 2, 1995, issued by Electronic Systems Center/MCK Air Force Materiel Command, USAF to ViaSat, Inc.(2)
- 10.29 Award/Contract, effective September 29, 1993, as amended,

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| Exhibit Numbers | Description of Exhibit |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | issued by Information Technology Acquisition Center to ViaSat, Inc.(2) |
| 10.30 | Award Contract, effective September 21, 1994, as amended, issued by Technical Contract Management Office to ViaSat, Inc.(2) |
| 10.31 | Satellite Network and Ordering Agreement by and between ViaSat, Inc. and Science Applications International Corporation, dated October 12, 1999.(7) |
| 10.32 | Award/Contract, effective January 20, 2000, issued by Space and Naval Warfare Systems to ViaSat, Inc.(8) |
| 10.33 | Terminal Development, Production and Purchase Agreement by and between Astrolink International LLC and ViaSat, Inc., dated October 20, 2000.(12)(24) |
| 10.34 | Memorandum of Agreement between Astrolink International LLC and ViaSat, Inc., dated October 20, 2000.(12)(24) |
| 10.35 | Gateway Terminal Development, Production and Purchase Agreement by and between Astrolink International LLC and ViaSat, Inc., dated December 28, 2000.(13)(24) |
| 10.36 | Satellite Modem Development, Production and Purchase Agreement by and between WildBlue Communications, Inc. and ViaSat, Inc., effective as of March 5, 2001.(14)(24) |
| 10.37 | Gateway Terminal Development, Production and Purchase Agreement, by and between Astrolink International, LLC and ViaSat, Inc. dated December 28, 2000.(18)(24) |
| 10.38 | Agreement for Satellite Modem, Wildblue Satellite Terminal and Satellite Modem Termination System Development, Production and Purchase, by and between Wildblue Communications, Inc. and ViaSat, Inc. dated December 12, 2001.(18)(24) |
| 10.39 | Unit Purchase Agreement dated as of December 12, 2001 by and between ViaSat, Inc. and Wildblue Communications, Inc.(17) |
| 10.40 | Secured Note dated December 12, 2001 by ViaSat, Inc. in favor of Wildblue Communications, Inc.(17)(24) |
| 10.41 | Unsecured Note dated December 12, 2001 by ViaSat, Inc. in favor of Wildblue Communications, Inc.(17) |
| 10.42 | Pledge and Security Agreement dated as of December 12, 2001 by and between ViaSat, Inc. and Wildblue Communications, Inc.(17) |
| 10.43 | Unit Purchase Agreement dated as of December 14, 2001 by and among ViaSat, Inc. and the parties identified under the heading Sellers on the signature pages thereto.(17) |

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| | |
|------|-------------------------------------------------------------------------------------------------------------------------------|
| 21.1 | Subsidiaries.(10) |
| 23.1 | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm (23) |
| 23.2 | Consent of Bennett Thrasher PC, Independent Registered Public Accounting Firm (23) |
| 31.1 | Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (23) |
| 32.1 | Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (23) |
| 99.1 | Financial Statements of Immeon Networks, LLC (23) |

-
- (1) Incorporated by reference to ViaSat's Registration Statement on Form S-3 filed with the Securities and Exchange Commission (the Commission) on March 6, 2000 (File No. 333-31758), as amended by Amendment No. 1 filed with the Commission on March 31, 2000 and Amendment No. 2 filed with the Commission on April 18, 2000.
 - (2) Incorporated by reference to ViaSat's Registration Statement on Form S-1 filed with the Commission on October 1, 1996 (File No. 333-13183), as amended by Amendment No. 1 filed with the Commission on November 5, 1996, Amendment No. 2 filed with the Commission on November 20, 1996, and Amendment No. 3 filed with the Commission on November 22, 1996.
 - (3) Incorporated by reference to ViaSat's Annual Report on Form 10-K for the fiscal year ended March 31, 1997.
 - (4) Incorporated by reference to Exhibit A to ViaSat's Proxy Statement relating to its 1998 Annual Meeting of Stockholders.
 - (5) Incorporated by reference to ViaSat's Annual Report on Form 10-K for the fiscal year ended March 31, 1998.

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- (6) Incorporated by reference to ViaSat's Annual Report on Form 10-K for the fiscal year ended March 31, 1999.
- (7) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.
- (8) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1999.
- (9) Incorporated by reference to ViaSat's Current Report on Form 8-K filed with the Commission on May 8, 2000.
- (10) Incorporated by reference to ViaSat's Annual Report on Form 10-K for the fiscal year ended March 31, 2000.
- (11) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000.
- (12) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.
- (13) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000.
- (14) Incorporated by reference to ViaSat's Annual Report on Form 10-K for the fiscal year ended March 31, 2001.
- (15) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001.
- (16) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001.
- (17) Incorporated by reference to ViaSat's Current Report on Form 8-K filed with the Commission on December 19, 2001.
- (18) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2001.
- (19) Incorporated by reference to ViaSat's Current Report on Form 8-K filed with the Commission on July 11, 2002.
- (20) Incorporated by reference to ViaSat's Current Report on Form 8-K filed with the Commission on October 31, 2002.
- (21) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended September 31, 2002.
- (22) Incorporated by reference to ViaSat's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2002.
- (23) Filed herewith.

(24) Certain portions of this exhibit have been redacted pursuant to a request for confidential treatment filed by ViaSat, Inc.

(b) Reports On Form 8-K

We filed no reports on Form 8-K during the quarter ended March 31, 2003.

(c) Exhibits

The exhibits required by this Item are listed under Item 15(a)(3).

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Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ MARK D. DANKBERG
Mark D. Dankberg
Chairman and Chief Executive Officer

Date: June 3, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------|
| /s/ MARK D. DANKBERG <hr/> Mark D. Dankberg | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | June 3, 2004 |
| /s/ RONALD G. WANGERIN <hr/> Ronald G. Wangerin | Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) | June 3, 2004 |
| /s/ ROBERT W. JOHNSON <hr/> Robert W. Johnson | Director | June 3, 2004 |
| /s/ JEFFREY M. NASH <hr/> Jeffrey M. Nash | Director | June 3, 2004 |
| /s/ B. ALLEN LAY <hr/> B. Allen Lay | Director | June 3, 2004 |
| /s/ MICHAEL B. TARGOFF <hr/> Michael B. Targoff | Director | June 3, 2004 |

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ViaSat, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of ViaSat, Inc. and its subsidiaries at March 31, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 5 of the consolidated financial statements, as of April 1, 2002, the Company ceased amortization of its goodwill and indefinite lived assets to conform with the provisions of Statement of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets*.

As discussed in Notes 2 and 14, the Company has restated its previously issued financial statements.

PricewaterhouseCoopers LLP

San Diego, CA

June 18, 2003, except for Notes 2 and 14 for which the date is May 10, 2004

Table of Contents**VIASAT, INC.****CONSOLIDATED BALANCE SHEETS**

| | As of March 31, 2002 | As of March 31, 2003 |
|-----------------------------------------------|----------------------------------------------|-------------------------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,464 | \$ 4,111 |
| Short-term investments | 156 | 158 |
| Accounts receivable, net | 80,170 | 80,962 |
| Inventory | 30,116 | 29,758 |
| Deferred income taxes | 2,974 | 4,241 |
| Prepaid expenses and other current assets | 7,343 | 6,015 |
| | <hr/> | <hr/> |
| Total current assets | 127,223 | 125,245 |
| Goodwill | 19,456 | 19,492 |
| Other intangible assets, net | 43,922 | 35,474 |
| Property and equipment, net | 31,117 | 33,609 |
| Other assets | 16,949 | 23,335 |
| | <hr/> | <hr/> |
| Total assets | \$238,667 | \$237,155 |
| | <hr/> | <hr/> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,069 | \$ 21,983 |
| Accrued liabilities | 17,796 | 19,036 |
| Line of credit | 9,900 | 9,950 |
| | <hr/> | <hr/> |
| Total current liabilities | 43,765 | 50,969 |
| Other liabilities | 2,549 | 1,847 |
| | <hr/> | <hr/> |
| Total liabilities | 46,314 | 52,816 |
| | <hr/> | <hr/> |
| Commitments and contingencies (Notes 11 & 12) | | |
| Minority interest in consolidated subsidiary | 414 | 452 |
| | <hr/> | <hr/> |

Stockholders' equity:

Series A, convertible preferred stock, \$.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding at March 31, 2002 and 2003, respectively

Common stock, \$.0001 par value, 100,000,000 shares authorized; 25,908,373 and 26,130,443 shares issued and outstanding at March 31, 2002 and 2003, respectively

| | | |
|------------------------------------------------|----------------------|----------------------|
| | 2 | 3 |
| Paid in capital | 152,775 | 154,293 |
| Retained earnings | 39,485 | 29,853 |
| Unearned compensation | (138) | (35) |
| Accumulated other comprehensive income (loss) | (185) | (227) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | <u>191,939</u> | <u>183,887</u> |
| Total liabilities and stockholders' equity | <u>\$238,667</u> | <u>\$237,155</u> |

See accompanying notes to the consolidated financial statements.

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VIASAT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended March 31, | | |
|------------------------------------------------------------|-----------------------------------|------------|------------|
| | 2001 | 2002 | 2003 |
| | (restated) | (restated) | (restated) |
| | (In thousands, except share data) | | |
| Revenues | \$ 164,352 | \$ 195,628 | \$ 185,022 |
| Cost of revenues | 113,458 | 139,354 | 142,908 |
| Gross profit | 50,894 | 56,274 | 42,114 |
| Operating expenses: | | | |
| Selling, general and administrative | 26,482 | 38,153 | 37,858 |
| Independent research and development | 6,173 | 9,415 | 16,048 |
| Acquired in-process research and development | 2,334 | 2,550 | |
| Amortization of intangible assets | 2,193 | 5,216 | 8,448 |
| Amortization of goodwill | 1,596 | 1,743 | |
| Income (loss) from operations | 12,116 | (803) | (20,240) |
| Other income (expense): | | | |
| Interest income | 1,725 | 558 | 116 |
| Interest expense | (78) | (370) | (856) |
| Minority interest | (76) | (97) | (85) |
| Equity in loss of joint venture | | (90) | |
| Income (loss) before income taxes | 13,687 | (802) | (21,065) |
| Provision (benefit) for income taxes | 3,422 | (2,959) | (11,433) |
| Net income (loss) | \$ 10,265 | \$ 2,157 | \$ (9,632) |
| Basic net income (loss) per share | \$ 0.48 | \$ 0.09 | \$ (0.37) |
| Diluted net income (loss) per share | \$ 0.46 | \$ 0.09 | \$ (0.37) |
| Shares used in computing basic net income (loss) per share | 21,379,015 | 23,071,840 | 26,015,702 |

| | | | |
|-----------------------------------------------------------------|-------------------|-------------------|-------------------|
| Shares used in computing diluted net income (loss) per share | <u>22,536,982</u> | <u>23,953,664</u> | <u>26,015,702</u> |
|-----------------------------------------------------------------|-------------------|-------------------|-------------------|

See accompanying notes to the consolidated financial statements.

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VIASAT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended March 31, | | |
|--------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------------|-------------------|
| | 2001 | 2002 | 2003 |
| | restated | restated (In thousands) | restated |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 10,265 | \$ 2,157 | \$ (9,632) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Depreciation | 5,276 | 7,204 | 9,754 |
| Amortization goodwill, intangible assets and software | 3,789 | 7,254 | 9,533 |
| Acquired in-process research and development | 2,334 | 2,550 | |
| Provision for bad debts | 316 | 5,046 | 475 |
| Deferred income taxes | (270) | (1,568) | (5,767) |
| Equity in loss of joint venture | | 90 | |
| Minority interest in consolidated subsidiary | 351 | 63 | 38 |
| Non-cash compensation | 134 | 15 | 103 |
| Tax benefit from exercise of stock options | 521 | | 25 |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | (21,334) | (20,763) | (1,148) |
| Inventory | (15,593) | (4,975) | (10) |
| Other assets | (10,948) | 2,336 | 3,663 |
| Accounts payable | 10,246 | (5,202) | 5,908 |
| Accrued liabilities | 6,786 | 320 | 1,225 |
| Other liabilities | (347) | 1,530 | (504) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net (used in) provided by operating activities | <u>(8,474)</u> | <u>(3,943)</u> | <u>13,663</u> |
| Cash flows from investing activities: | | | |
| Acquisition of a business, net of cash acquired | (57,904) | (20,787) | |
| Purchases of short-term investments, net | 121 | (156) | (2) |
| Investment in capitalized software | (3,393) | (9,215) | (5,333) |
| Purchases of property and equipment, net | (6,574) | (15,617) | (12,242) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in investing activities | <u>(67,750)</u> | <u>(45,775)</u> | <u>(17,577)</u> |

Cash flows from financing activities:

| | | | |
|--------------------------------------------------------------------------------------------------------|------------------|-------------------|-------------------|
| Proceeds from line of credit | | 31,100 | 10,950 |
| Payments on line of credit | | (21,200) | (10,900) |
| Repayment of notes payable | (907) | (336) | |
| Net proceeds from issuance of common stock, net of issuance costs of \$864, \$369 and \$0 respectively | 75,351 | 28,889 | 1,550 |
| | <u>75,351</u> | <u>28,889</u> | <u>1,550</u> |
| Net cash provided by financing activities | 74,444 | 38,453 | 1,600 |
| Other non-cash items | | | (56) |
| Effect of exchange rate changes on cash | (19) | 8 | 17 |
| | <u>(19)</u> | <u>8</u> | <u>17</u> |
| Net decrease in cash and cash equivalents | (1,799) | (11,257) | (2,353) |
| Cash and cash equivalents at beginning of year | 19,520 | 17,721 | 6,464 |
| | <u>19,520</u> | <u>17,721</u> | <u>6,464</u> |
| Cash and cash equivalents at end of year | \$ 17,721 | \$ 6,464 | \$ 4,111 |
| | <u>\$ 17,721</u> | <u>\$ 6,464</u> | <u>\$ 4,111</u> |
| Supplemental information: | | | |
| Cash paid for interest | \$ 82 | \$ 370 | \$ 790 |
| | <u>\$ 82</u> | <u>\$ 370</u> | <u>\$ 790</u> |
| Cash paid (received) for income taxes | \$ 5,491 | \$ (1,884) | \$ (3,614) |
| | <u>\$ 5,491</u> | <u>\$ (1,884)</u> | <u>\$ (3,614)</u> |
| Supplemental noncash financing activity: | | | |
| Issuance of warrants for acquisition of business | \$ 1,215 | \$ | \$ |
| | <u>\$ 1,215</u> | <u>\$</u> | <u>\$</u> |
| Issuance of common stock for acquisition of business | \$ | \$ 27,100 | \$ |
| | <u>\$</u> | <u>\$ 27,100</u> | <u>\$</u> |

See accompanying notes to the consolidated financial statements.

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VIASAT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

| | <u>Common Stock</u> | | Paid in Capital | Retained Earnings | Unearned Compensation | Accumulated Other Comprehensive Income (Loss) | Comprehensive Income (Loss) |
|----------------------------------------------------------------------------------------------|---------------------|--------|--------------------|----------------------|--------------------------|-----------------------------------------------------------|-----------------------------------|
| | Number of Shares | Amount | | | | Total | |
| (In thousands, except share data) | | | | | | | |
| Balance at March 31, 2000 | 16,393,208 | \$ 2 | \$ 18,932 | \$27,063 | | \$ 45,997 | |
| Exercise of stock options | 324,076 | | 1,253 | | | 1,253 | |
| Tax benefit from exercise of stock options | | | 521 | | | 521 | |
| Issuance of stock under Employee Stock Purchase Plan | 66,216 | | 911 | | | 911 | |
| Issuance for stock for secondary public offering, net of issuance costs of \$864 | 5,224,150 | | 73,188 | | | 73,188 | |
| Issuance of warrants | | | 1,215 | | | 1,215 | |
| Non-cash compensation modification of stock options | | | 134 | | | 134 | |
| Net income | | | | 10,265 | | 10,265 | \$ 10,265 |
| Foreign currency translation | | | | | | \$ (677) | (677) |
| Comprehensive income | | | | | | | \$ 9,588 |
| Balance at March 31, 2001 | 22,007,650 | 2 | 96,154 | 37,328 | | (677) | 132,807 |
| Exercise of stock options | 159,089 | | 591 | | | 591 | |
| Issuance of stock | 100,227 | | 1,217 | | | 1,217 | |

| | | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| under Employee Stock Purchase Plan Issuance for stock for secondary public offering, net of issuance costs of \$369 | 2,000,000 | | 27,081 | | | | 27,081 | |
| Issuance of stock for acquisitions | 1,641,407 | | 27,115 | | | | 27,115 | |
| Value of option plan acquired | | | 602 | | | | 602 | |
| Unearned compensation of option plan acquired | | | | | \$ (138) | | (138) | |
| Non-cash compensation modification of stock options | | | 15 | | | | 15 | |
| Net income | | | | 2,157 | | | 2,157 | \$ 2,157 |
| Foreign currency translation | | | | | | 492 | 492 | 492 |
| | | | | | | | | <u>492</u> |
| Comprehensive income | | | | | | | | \$ 2,649 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balance at March 31, 2002 | 25,908,373 | 2 | 152,775 | 39,485 | (138) | (185) | 191,939 | |
| Exercise of stock options | 32,250 | | 223 | | | | 223 | |
| Tax benefit from exercise of stock options | | | 25 | | | | 25 | |
| Issuance of stock under Employee Stock Purchase Plan | 189,820 | 1 | 1,326 | | | | 1,327 | |
| Forfeited unexercised options | | | (56) | | | | (56) | |
| Amortization of stock based compensation | | | | | 103 | | 103 | |
| Net loss | | | | (9,632) | | | (9,632) | \$ (9,632) |
| Foreign currency translation | | | | | | (42) | (42) | (42) |
| | | | | | | | | <u>(42)</u> |
| Comprehensive loss | | | | | | | | \$ (9,674) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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| | | | | | | | |
|------------------------------|-------------------|-------------|-------------------|------------------|----------------|-----------------|-------------------|
| Balance at March 31, 2003 | <u>26,130,443</u> | <u>\$ 3</u> | <u>\$ 154,293</u> | <u>\$ 29,853</u> | <u>\$ (35)</u> | <u>\$ (227)</u> | <u>\$ 183,887</u> |
|------------------------------|-------------------|-------------|-------------------|------------------|----------------|-----------------|-------------------|

See accompanying notes to the consolidated financial statements.

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 The Company and a Summary of Its Significant Accounting Policies

The Company

ViaSat, Inc. (We or the Company) designs, produces and markets advanced broadband digital satellite communications and other wireless networking and signal processing equipment.

Principles of Consolidation

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

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

Management Estimates and Assumptions

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

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of 90 days or less.

Short-term Investments

At March 31, 2002 and 2003, the Company held investments in investment grade debt securities with various maturities. Management determines the appropriate classification of its investments in debt securities at the time of purchase and has designated all of its investments as held to maturity. The Company s investments in these securities as of March 31, 2002 and 2003 totaled \$2.1 million and \$166,000, respectively. The Company has included \$2.0 million and \$8,000 of these securities in cash and cash equivalents as of March 31, 2002 and 2003, respectively, as they have original maturities of less than 90 days. The remaining \$156,000 as of March 31, 2002 and \$158,000 as of March 31, 2003 have been classified as short-term investments.

Unbilled Accounts Receivable

Unbilled receivables consist of costs and fees earned and billable on contract completion or other specified events. Unbilled receivables is expected to be collected within one year.

Concentration of Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, short-term investments, and trade accounts receivable which are generally not collateralized. The Company limits its exposure to credit loss by placing its cash equivalents and short-term investments with high credit quality financial institutions and investing in high quality short-term debt instruments. The Company establishes allowances for bad debts based on historical collection experiences within the various markets in which the Company operates, number of days the accounts are past due

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

and any specific information that the Company becomes aware of such as bankruptcy or liquidity issues of customers.

The Company relies on a limited number of contract manufacturers to produce its products.

Inventory

Inventory is valued at the lower of cost or market, cost being determined by the weighted average method.

Property and Equipment

Equipment, computers and software, and furniture and fixtures are recorded at cost, and depreciated using the straight-line method over estimated useful lives of five years, three years and seven years, respectfully. Additions to property and equipment together with major renewals and betterments are capitalized. Maintenance, repairs and minor renewals and betterments are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized.

Goodwill and Intangible Assets

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

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

Impairment of goodwill

We account for our goodwill under 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. 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. SFAS No. 142 requires goodwill to be tested for impairment annually at the same time every 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. The forecast of future cash flows are based on our best estimate of the future revenues and operating costs, based primarily on 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 goodwill impairment needs to be recorded.

The cash flow forecasts are adjusted by an appropriate discount rate derived from our market capitalization plus a suitable control premium at the date of evaluation.

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its 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. No such impairments have been identified by us.

Warranty Reserves

The Company provides limited warranties on certain of its products for periods of up to five years. The Company records warranty reserves when products are shipped based upon an estimate of total warranty costs, with amounts expected to be incurred within twelve months classified as a current liability.

Fair Value of Financial Instruments

At March 31, 2003, the carrying amounts of the Company's financial instruments, including cash equivalents, short-term investments, trade receivables, accounts payable and line of credit, approximated their fair values due to their short-term maturities.

Revenue Recognition

The majority of the Company's revenues are derived from services performed under a variety of contracts including cost-plus-fixed fee, fixed-price, and time and materials contracts. Revenues from the United States Department of Defense and its prime contractors amounted to \$82.3 million, \$62.7 million and \$62.4 million for the years ended March 31, 2003, 2002 and 2001, respectively. Revenues from commercial customers amounted to \$102.7 million, \$132.9 million and \$101.9 million for the years ended March 31, 2003, 2002 and 2001, respectively. The Company's five largest contracts (by revenues) generated approximately 29%, 33% and 36% of the Company's total revenues for the fiscal years ended March 31, 2003, 2002 and 2001, respectively.

Generally, revenues are recognized as services are performed using the percentage of completion method, measured primarily by costs incurred to date compared with total estimated costs at completion or based on the number of units delivered. The Company provides for anticipated losses on contracts by a charge to income during the period in which they are first identified.

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

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Independent Research and Development

Independent research and development, which is not directly funded by a third party, is expensed as incurred. Independent research and development expenses consist primarily of salaries and other personnel-related expenses, supplies and prototype materials related to research and development programs.

Software Development

Costs of developing software for sale are charged to research and development expense when incurred, until technological feasibility has been established. Software development costs incurred from the time technological feasibility is reached until the product is available for general release to customers are capitalized and reported at the lower of unamortized cost or net realizable value. Once the product is available for general release, the software development costs are amortized based on the ratio of current to future revenue for each product with an annual minimum equal to straight-line amortization over the remaining estimated economic life of the product not to exceed five years. We capitalized costs related to software developed for resale of \$3.4 million for the fiscal year ended March 31, 2001, \$9.2 million for the fiscal year ended March 31, 2002 and \$5.3 million for the fiscal year ended March 31, 2003. Amortization expense of software development costs was \$0 for 2001, \$320,000 for 2002 and \$1.1 million for 2003.

Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future tax consequences resulting from differences in the financial reporting and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax credit and loss carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred income tax expense (benefit) is the net change during the year in the deferred income tax asset or liability.

Earnings Per Share

Basic earnings per share is computed based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share is based upon the weighted average number of common shares outstanding and potential common stock, if dilutive during the period. Potential common stock includes options granted under the Company's stock option plans and warrants which are included in the earnings per share calculations using the treasury stock method and common shares expected to be issued under the Company's employee stock purchase plan.

Stock Split

On July 28, 2000 the Board of Directors declared a two-for-one stock split of our common stock in the form of a stock dividend. The stock dividend was distributed at the close of business on August 31, 2000 to stockholders of record on August 21, 2000. All share and per share information in the financial statements has been adjusted to reflect the stock split on a retroactive basis.

Foreign Currency

In general, the functional currency of a foreign operation is deemed to be the local country's currency. Consequently, assets and liabilities of operations outside the United States are generally translated into United States dollars, and the effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in the consolidated statements stockholders' equity.

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Table of Contents**VIASAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)*****Segment Reporting***

Operating segments are determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. We are organized primarily on the basis of products with commercial and government (defense) communication applications. The nature of our products and their potential uses will occasionally create a situation where a commercially developed product will be sold to a customer and the customer is the government or the customer's end user is the government or when a product developed for the government is sold to customers for commercial applications. For segment reporting, the revenues and operating profits generated from these products are recorded in the segment of the segment's primary business.

Stock-based Compensation

The Company measures compensation expense for ViaSat's stock-based employee compensation plans using the intrinsic value method and provides pro forma disclosures of net income (loss) as if the fair value-based method had been applied in measuring compensation expense.

At March 31, 2003, the Company had stock-based compensation plans described in detail in Note 7. The Company accounts for options issued to employees, directors and officers under those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees, and related Interpretations*. Generally, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

The fair values of options granted during the years ended as reported below were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

| | Employee Stock Options | | | Employee Stock Purchase Plan | | |
|--------------------------|-------------------------------|-------------|-------------|-------------------------------------|-------------|-------------|
| | 2001 | 2002 | 2003 | 2001 | 2002 | 2003 |
| Expected life (in years) | 4.86 | 4.88 | 5.99 | 0.50 | 0.50 | 0.50 |
| Risk-free interest rate | 5.42% | 4.51% | 2.78% | 5.70-6.24% | 1.69-5.32% | 1.22-1.69% |
| Expected volatility | 125.00% | 91.00% | 91.00% | 125.00% | 91.00% | 91.00% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

The weighted average estimated fair value of employee stock options granted during 2001, 2002, and 2003 was \$18.69, \$11.55, and \$8.25 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 2001, 2002 and 2003 was \$9.23, \$6.07 and \$6.99 per share, respectively.

Table of Contents**VIASAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the vesting period. The Company's pro forma information for the years ended March 31, 2001, 2002 and 2003 is as follows:

| | Year Ended March 31, | | |
|-------------------------------------------------------------------------|----------------------------------------------|-------------|-------------|
| | 2001 | 2002 | 2003 |
| | (In thousands, except per share data) | | |
| Net income (loss) as reported | \$ 10,265 | \$ 2,157 | \$ (9,632) |
| Stock based compensation included in net income (loss) | 134 | 15 | 103 |
| Stock based employee compensation expense under fair value based method | (9,313) | (13,359) | (12,749) |
| Pro forma net income (loss) | \$ 1,086 | \$(11,187) | \$(22,278) |
| Basic earnings (loss) per share | | | |
| As reported | \$ 0.48 | \$ 0.09 | \$ (0.37) |
| Pro forma | 0.05 | (0.48) | (0.86) |
| Diluted earnings (loss) per share | | | |
| As reported | \$ 0.46 | \$ 0.09 | \$ (0.37) |
| Pro forma | 0.05 | (0.48) | (0.86) |

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143 *Accounting for Asset Retirement Obligation*, which became effective on January 1, 2003. This standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. We have determined that the implementation of this standard will not have a material effect on our consolidated financial statements.

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

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 are effective for us beginning in our second quarter of fiscal 2004. We believe that the adoption of this standard will not have a material effect on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity's product warranty liabilities. We will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. We do not expect the adoption of FIN 45 to have a material effect on our results of operations or financial condition.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, an amendment to SFAS No. 123, which provides alternative transition methods to

Table of Contents**VIASAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

the expensing of employee stock-based compensation under SFAS No. 123. We are not required to adopt the fair value method prescribed by SFAS No. 123 and, accordingly, will continue to account for stock-based compensation under the intrinsic value method in accordance with APB Opinion No. 25. SFAS No. 148 also requires new disclosure requirements that are incremental to SFAS No. 123, which have been included in Note 1 to our consolidated financial statements under Stock-based Compensation.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) *Consolidation of Variable Interest Entities*. FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46 requires that its provisions are effective immediately for all arrangements entered into after January 31, 2003. We do not have any variable interest entities created after January 31, 2003. For those arrangements entered into prior to January 31, 2003, the FIN 46 provisions are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003.

In April 2003, FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003. We do not expect the adoption of this statement to have a material effect on our operating results or financial position.

Note 2 Restatement of Previously Issued Financial Statements

The Company has restated its 2001, 2002 and 2003 financial statements to present costs incurred on behalf of Immeon as cost of revenues. As discussed in Note 14, the Company acquired a 50% joint venture interest in Immeon in 2001, and was required to perform certain services on behalf of Immeon pursuant to the Joint Venture Agreement and related agreements. These costs were presented as Equity in losses of joint venture in previously issued financial statements. As a result of the restatement, costs incurred on behalf of Immeon that were previously accounted for as Equity in losses of joint venture have been reclassified to Cost of revenues for all periods presented. These adjustments do not affect previously reported amounts of revenues, net income, earnings per share or assets, liabilities or stockholders' Equity for 2001, 2002 or 2003.

The impacts to the Statement of Operations are as follows (in thousands)

| | Year Ended March 31, | | |
|------------------------------------------|-----------------------------|-------------|-------------|
| | 2001 | 2002 | 2003 |
| Cost of revenues, as previously reported | \$ 112,900 | \$ 136,567 | \$ 141,208 |
| Adjustment | 558 | 2,787 | 1,700 |
| Cost of revenues, as restated | \$ 113,458 | \$ 139,354 | \$ 142,908 |

| | | | |
|---------------------------------------------------------|-----------|------------|-------------|
| | _____ | _____ | _____ |
| Gross profit, as previously reported | \$ 51,452 | \$ 59,061 | \$ 43,814 |
| Adjustment | (558) | (2,787) | (1,700) |
| | _____ | _____ | _____ |
| Gross profit, as restated | \$ 50,894 | \$ 56,274 | \$ 42,114 |
| | _____ | _____ | _____ |
| Income (loss) from operations, as previously reported | \$ 12,674 | \$ 1,984 | \$ (18,540) |
| Adjustment | (558) | (2,787) | (1,700) |
| | _____ | _____ | _____ |
| Income (loss) from operations, as restated | \$ 12,116 | \$ (803) | \$ (20,240) |
| | _____ | _____ | _____ |
| Equity in loss of joint venture, as previously reported | \$ (558) | \$ (2,877) | \$ (1,700) |
| Adjustment | 558 | 2,787 | 1,700 |
| | _____ | _____ | _____ |
| Equity in loss of joint venture, as restated | \$ | \$ (90) | \$ |
| | _____ | _____ | _____ |

Note 3 Acquisitions

Comsat Laboratories

On July 27, 2001, we acquired 100% of the assets of Comsat Laboratories from Comsat Corporation, a Lockheed Martin Global Telecommunications company, for an aggregate purchase price of approximately \$21.6 million (including acquisition costs and post-closing adjustments). The purchase price consisted of approximately \$11.6 million in cash, plus 478,217 shares of our common stock valued at approximately \$10.0 million based on the average market price of our common stock a few days

Table of Contents**VIASAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

before and a few days after the announcement. In addition, warrants to purchase up to 60,000 shares of our common stock may be issued as part of the purchase price contingent upon certain revenue and development award targets being achieved by Comsat Laboratories within a two-year period from the date of the acquisition. The value of the warrants will be measured once their contingency is resolved. In connection with this acquisition, a charge of \$2.5 million for acquired in process research and development was included in our results for the fiscal year ended March 31, 2002, which represents the fair value of certain acquired research and development projects that were determined to have not reached technological feasibility and have no alternative future use.

Comsat Laboratories specializes in broadband satellite network terminals designed to extend the reach and functionality of networks using a variety of flexible, multi-protocol products. The terminals support high-speed voice, video, data, multimedia and Internet connections under the LINKWAY(TM) and LinkStar(TM) brand names. We expect the acquisition to augment our position in core satellite networks and communications systems business.

U.S. Monolithics, LLC

On December 12, 2001, we acquired all outstanding preferred units of U.S. Monolithics, LLC (USM), from Wildblue Communications, Inc. pursuant to a Unit Purchase Agreement dated December 12, 2001 (the Wildblue Agreement). The preferred units comprise approximately 35% of the outstanding equity interests of USM. On January 4, 2002 we completed the USM acquisition by acquiring all of the outstanding common units of USM pursuant to a Unit Purchase Agreement dated December 14, 2001. The aggregate purchase price for the preferred and common units of USM was approximately \$30.9 million (including acquisition costs). The purchase price consisted of approximately \$9.2 million in cash, a credit of \$3.5 million against certain payment obligations of Wildblue under a commercial agreement that we entered into with Wildblue concurrently with the signing of the Wildblue Agreement, \$602,000 for value of options acquired (see Note 6) and 1,163,190 shares of our common stock valued at approximately \$17.1 million based on the average price of our common stock a few days before and a few days after the announcement.

USM is primarily focused on developing proprietary gallium arsenide (GaAs) millimeter wave Integrated Circuits (MMICs) for use in broadband communications. USM's systems background and proprietary capabilities have also enabled it to design power amplifiers, frequency block upconverters, and entire transceivers for the high frequency, broadband markets. USM also has strong capabilities with respect to high frequency packaging. We expect the acquisition of USM to improve the cost/performance ratio in an area where the industry needs improvements and to hit the price targets that satellite service providers need.

The fair value of assets acquired and liabilities assumed for each acquisition is as follows:

| | Comsat Laboratories | U.S. Monolithics |
|--------------------------------------------|--------------------------------|-----------------------------|
| | (In thousands) | |
| Cash | \$ | \$ 580 |
| Accounts receivable | 3,328 | 121 |
| Inventory | 2,000 | |
| Property, plant and equipment | 1,316 | 1,498 |
| Amortizable intangible assets (see Note 4) | 13,000 | 18,800 |

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| | | |
|----------------------------------------------|-----------------|------------------|
| Goodwill | 1,386 | 11,451 |
| Acquired in-process research and development | 2,500 | 50 |
| Other assets | 53 | 45 |
| Liabilities | <u>(2,003)</u> | <u>(1,733)</u> |
| Total | <u>\$21,580</u> | <u>\$ 30,812</u> |

The following unaudited pro forma information presents a summary of consolidated results with pro forma adjustments to give effect to amortization of intangibles and certain other adjustments, but not goodwill, together with related income tax effect. The pro forma results for the year ended March 31, 2002 include \$2.5 million of in-process research and development costs that are considered nonrecurring. The assets purchased from Comsat Corporation did not comprise a division or business unit of Comsat Corporation until October 2000. Therefore, accounting records are not available to prepare pro forma consolidated results for the year ended March 31, 2001 to include Comsat Laboratories. Therefore, the pro forma results for the year ended March 31, 2001 include only the results of US Monolithics and the pro forma results for the year ended March 31, 2002 include the results of both US Monolithics and Comsat Laboratories as if the acquisitions had occurred at the beginning of the respective fiscal years March 31, 2001 and 2002. These pro forma amounts do not purport to be indicative of the results that would have

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actually been obtained if the acquisitions had occurred as of the beginning of the periods presented, or that may be obtained in the future.

| | Years Ended March 31, | |
|-----------------------------------|----------------------------------------------|-------------|
| | 2001 | 2002 |
| | (In thousands, except share data) | |
| Revenues | \$ 165,096 | \$ 200,297 |
| Net income (loss) | \$ 6,786 | \$ (3,346) |
| Earnings (loss) per share | | |
| Basic | \$.30 | \$ (.14) |
| Diluted | \$.29 | \$ (.14) |
| Weighted average number of shares | | |
| Basic | 22,542,205 | 24,233,481 |
| Diluted | 23,700,172 | 24,233,481 |

Note 4 Composition of Certain Balance Sheet Captions

| | March 31, 2002 | March 31, 2003 |
|---------------------------------|---------------------------|---------------------------|
| | (In thousands) | |
| Cash and cash equivalents: | | |
| Cash | \$ 4,494 | \$ 4,103 |
| Investments in debt securities | 1,970 | 8 |
| | <u>\$ 6,464</u> | <u>\$ 4,111</u> |
| Accounts receivable, net: | | |
| Billed | \$39,081 | \$41,724 |
| Unbilled | 41,576 | 39,911 |
| Allowance for doubtful accounts | (487) | (673) |
| | <u>\$80,170</u> | <u>\$80,962</u> |

Inventory:

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| | | |
|--------------------------------------------|-------------------|-------------------|
| Raw materials | \$ 13,268 | \$ 15,083 |
| Work in process | 9,906 | 2,323 |
| Finished goods | 6,942 | 12,352 |
| | <u> </u> | <u> </u> |
| | \$ 30,116 | \$ 29,758 |
| | <u> </u> | <u> </u> |
| Prepaid expenses and other current assets: | | |
| Income taxes receivable | \$ 2,792 | \$ 4,162 |
| Prepaid expenses | 2,762 | 1,616 |
| Other | 1,789 | 237 |
| | <u> </u> | <u> </u> |
| | \$ 7,343 | \$ 6,015 |
| | <u> </u> | <u> </u> |

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| | March 31, 2002 | March 31, 2003 |
|---------------------------------|---------------------------|---------------------------|
| | (In thousands) | |
| Other intangible assets: | | |
| Technology | \$ 26,770 | \$ 26,770 |
| Contracts and relationships | 9,736 | 9,736 |
| Non-compete agreement | 7,950 | 7,950 |
| Other intangibles | 6,875 | 6,875 |
| | <u>51,331</u> | <u>51,331</u> |
| Less accumulated amortization | (7,409) | (15,857) |
| | <u>\$ 43,922</u> | <u>\$ 35,474</u> |
| Property and equipment: | | |
| Machinery and equipment | \$ 30,131 | \$ 32,567 |
| Computer equipment and software | 15,783 | 23,752 |
| Furniture and fixtures | 2,030 | 3,130 |
| Construction in progress | 5,161 | 5,225 |
| | <u>53,105</u> | <u>64,674</u> |
| Less accumulated depreciation | (21,988) | (31,065) |
| | <u>\$ 31,117</u> | <u>\$ 33,609</u> |
| Other assets: | | |
| Capitalized software costs, net | \$ 12,313 | \$ 16,561 |
| Prepaid satellite services | 2,500 | |
| Deferred income taxes | 1,172 | 5,672 |
| Other | 964 | 1,102 |
| | <u>\$ 16,949</u> | <u>\$ 23,335</u> |

Accrued liabilities:

| | | |
|--------------------------------------|-------------------|-------------------|
| Current portion of warranty reserve | \$ 494 | \$ 1,157 |
| Accrued vacation | 3,284 | 3,539 |
| Accrued bonus | 1,952 | |
| Accrued 401(k) matching contribution | 2,288 | |
| Collections in excess of revenues | 6,090 | 11,646 |
| Other | 3,688 | 2,694 |
| | <u> </u> | <u> </u> |
| | \$ 17,796 | \$ 19,036 |
| | <u> </u> | <u> </u> |

Note 5 Accounting for Goodwill and Intangible Assets

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

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

step, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment. The first step, which was our identification of any impairment of goodwill as of April 1, 2002, resulted in no impairment of goodwill for the adoption of SFAS No. 142. Since step two was required only if step one reveals an impairment, we were not required to complete step two and the transitional impairment testing was completed.

The annual test of impairment as required by SFAS No. 142 was completed in the fourth quarter of our fiscal year. In applying the first step, which is identification of any impairment of goodwill as of the test date, no impairment of goodwill resulted. Since step two is required only if step one reveals an impairment, we were not required to complete step two and the annual impairment testing was complete.

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

A reconciliation of results of operations adjusted to exclude amortization expense net of tax related to goodwill (including Acquired workforce) assuming adoption of SFAS 142 on April 1, 2000 is as follows:

| | Years Ended March 31, | | |
|-------------------------------------|----------------------------------------------|-------------------|-------------------|
| | 2001 | 2002 | 2003 |
| | (In thousands, except per share data) | | |
| Reported net income (loss) | \$ 10,265 | \$ 2,157 | \$ (9,632) |
| Goodwill amortization | 958 | 1,046 | |
| | <u> </u> | <u> </u> | <u> </u> |
| Adjusted net income (loss) | <u>\$ 11,223</u> | <u>\$ 3,203</u> | <u>\$ (9,632)</u> |
| Basic net income (loss) per share | | | |
| Reported net income (loss) | \$.48 | \$.09 | \$ (.37) |
| Goodwill amortization | .04 | .05 | |
| | <u> </u> | <u> </u> | <u> </u> |
| Adjusted net income (loss) | <u>\$.52</u> | <u>\$.14</u> | <u>\$ (.37)</u> |
| Diluted net income (loss) per share | | | |
| Reported net income (loss) | \$.46 | \$.09 | \$ (.37) |
| Goodwill amortization | .04 | .04 | |

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| | | | |
|--------------------------------------|------------|------------|------------|
| Adjusted net income (loss) | \$.50 | \$.13 | \$ (.37) |
| Shares used in per share calculation | | | |
| Basic | 21,379,015 | 23,071,840 | 26,015,702 |
| Diluted | 22,536,982 | 23,953,664 | 26,015,702 |

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 has several components with estimated useful lives of two to ten years. The amortization expense was

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Table of Contents**VIASAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

\$7.0 million and \$8.4 million for the years ended March 31, 2002 and 2003, respectively. The estimated amortization expense for the next five years is as follows:

| | Amortization |
|-------------------------------|-----------------------|
| | (In thousands) |
| Expected for fiscal year 2004 | \$7,842 |
| Expected for fiscal year 2005 | 6,642 |
| Expected for fiscal year 2006 | 6,048 |
| Expected for fiscal year 2007 | 5,378 |
| Expected for fiscal year 2008 | 4,508 |

Below is the allocation of the intangible assets from acquisitions, including goodwill, and the accumulated amortization as of March 31, 2002 and 2003:

| | Satellite Networks | Comsat Laboratories | U.S. Monolithics | Total | Accumulated Amortization as of March 31, | |
|---------------------------------------|-------------------------------|--------------------------------|-----------------------------|-----------------|---------------------------------------------------------|-----------------|
| | | | | | 2002 | 2003 |
| | (In thousands) | | | | | |
| Intangible Assets | | | | | | |
| Existing Technology | \$ 9,845 | \$ 3,850 | \$13,075 | \$26,770 | \$ 3,369 | \$ 7,168 |
| Contracts and relationships | 9,686 | | 50 | 9,736 | 2,162 | 3,264 |
| Non-compete agreements | | 5,350 | 2,600 | 7,950 | 1,320 | 3,623 |
| Other amortizable assets | | 3,800 | 3,075 | 6,875 | 558 | 1,802 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total intangible assets | 19,531 | 13,000 | 18,800 | 51,331 | 7,409 | 15,857 |
| Goodwill | | | | | | |
| Acquired workforce | 5,477 | | | 5,477 | 2,101 | 2,101 |
| Goodwill | 4,517 | 1,386 | 11,451 | 17,354 | 1,238 | 1,238 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total goodwill | 9,994 | 1,386 | 11,451 | 22,831 | 3,339 | 3,339 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Totals intangible assets and goodwill | \$29,525 | \$14,386 | \$30,251 | \$74,162 | \$10,748 | \$19,196 |

The changes in the carrying amount of goodwill during the period:

| | (In thousands) |
|------------------------------------------------------------------|---------------------------|
| Balance of goodwill acquired at March 31, 2002 | \$19,456 |
| Adjustment to goodwill for additional acquisition costs incurred | 36 |
| Amount of impairment losses recognized | _____ |
| Balance of goodwill acquired at March 31, 2003 | \$19,492 _____ |

Note 6 Line of Credit

On February 10, 2003, we executed an Amended and Restated Revolving Loan Agreement of \$20 million with Union Bank of California and Comerica Bank - California. Under the revolving facility we have the option to borrow at the bank's prime rate or at LIBOR plus, in each case, an applicable margin. The revolving facility contains financial covenants that set maximum debt to EBITDA limits, minimum quarterly EBITDA limits, minimum quick ratio limit and a minimum tangible net worth limit. The borrowing commitment is also limited by ViaSat's level of accounts receivable and inventory. The revolving facility's maturity date is September 30, 2003 and is collateralized by cash, accounts receivable and inventory of ViaSat. At March 31,

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

2003, the total outstanding borrowings under the revolving facility were \$10.0 million and amounts outstanding under standby letters of credit were \$4.4 million, leaving borrowing availability under the revolving facility of \$5.6 million.

Note 7 Common Stock and Options

In September 2001, the Company filed a universal shelf registration statement with the Securities and Exchange Commission for the future sale of up to \$75 million of debt securities, common stock, preferred stock, depositary shares, and warrants. The securities may be offered from time to time, separately or together, directly by the Company or through underwriters at amounts, prices, interest rates and other terms to be determined at the time of the offering. The Company currently intends to use the net proceeds from the sale of the securities under the shelf registration statement for general corporate purposes, including acquisitions, capital expenditures, working capital and the repayment or refinancing of our debt. On January 8, 2002 we completed a public stock offering under our universal shelf registration statement for the sale of 2,000,000 shares of common stock for net proceeds of approximately \$27.1 million.

In July 1993, the Company adopted the 1993 Stock Option Plan (the Plan) which authorizes 1,467,000 shares to be granted no later than July 2003. In November 1996, the Plan was terminated and replaced by the ViaSat, Inc. 1996 Equity Participation Plan (the 1996 Equity Participation Plan). The options granted under this plan have an exercise price equal to the market value of the underlying common stock on the date of grant. No options have been issued under the Plan since July 1996.

In November 1996, the Company adopted the 1996 Equity Participation Plan. The 1996 Equity Participation Plan provides for the grant to executive officers, other key employees, consultants and non-employee directors of the Company a broad variety of stock-based compensation alternatives such as nonqualified stock options, incentive stock options, restricted stock and performance awards. In September 2000, the Company amended the 1996 Equity Participation Plan to increase the maximum number of shares reserved for issuance under this plan from 2,500,000 shares to 6,100,000 shares. As of March 31, 2003, the Company had granted options to purchase 5,367,596 shares of common stock under this plan with vesting terms of three to five years which are exercisable for up to ten years from the grant date or up to five years from the date of grant for a ten percent owner.

In November 1996, the Company adopted the ViaSat, Inc. Employee Stock Purchase Plan (the Employee Stock Purchase Plan) to assist employees in acquiring a stock ownership interest in the Company and to encourage them to remain in the employment of the Company. The Employee Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. A maximum of 1,000,000 shares of common stock are reserved for issuance under the Employee Stock Purchase Plan. The Employee Stock Purchase Plan permits eligible employees to purchase common stock at a discount through payroll deductions during specified six-month offering periods. No employee may purchase more than \$25,000 worth of stock in any calendar year. The price of shares purchased under the Employee Stock Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. As of March 31, 2003, the Company had issued 662,989 shares of common stock under this plan.

In January 2002, the Company assumed the U.S. Monolithics 2000 Incentive Plan (the USM Plan) which was amended and restated January 2002. Pursuant to such assumption, all options granted under the USM Plan were converted into options to purchase common stock of the Company. The number of shares of common stock reserved for issuance under this plan is 203,000. As of March 31, 2003, options to purchase 121,578 shares of common stock

had been granted under this plan, 44,418 of which were converted from previously issued U.S. Monolithics options. The options granted under this plan have an exercise price equal to the market value of the underlying common stock on the date of grant.

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Transactions under the Company's stock option plans are summarized as follows:

| | <u>Number of Shares</u> | <u>Exercise Price Per Share</u> | | <u>Weighted Average Exercise Price Per Share</u> |
|----------------------------------|-----------------------------|-------------------------------------|-------|------------------------------------------------------------------|
| Outstanding at March 31, 2000 | 2,178,802 | .68 | 43.82 | 8.50 |
| Options granted | 2,136,800 | 9.95 | 27.94 | 20.42 |
| Options canceled | (165,383) | 3.69 | 26.16 | 14.00 |
| Options exercised | (324,075) | .68 | 8.33 | 3.82 |
| Outstanding at March 31, 2001 | 3,826,144 | 2.05 | 43.82 | 15.31 |
| Options assumed from USM Plan | 44,418 | 8.94 | 8.94 | 8.94 |
| Options granted | 985,150 | 9.96 | 21.75 | 15.55 |
| Options canceled | (293,301) | 5.86 | 36.56 | 19.89 |
| Options exercised | (174,670) | 2.05 | 8.56 | 4.85 |
| Outstanding at March 31, 2002 | 4,387,741 | 4.25 | 43.82 | 15.41 |
| Options granted | 922,249 | 4.70 | 12.95 | 10.37 |
| Options canceled | (242,123) | 7.77 | 26.16 | 19.11 |
| Options exercised | (32,250) | 5.78 | 8.94 | 6.81 |
| Outstanding at March 31, 2003 | 5,035,617 | 4.25 | 43.82 | 14.37 |

All options issued under the Company's stock option plans have an exercise price equal to the fair market value of the Company's stock on the date of the grant.

The following table summarizes all options outstanding and exercisable by price range as of March 31, 2003:

Weighted

| Range of Exercise Prices | Number Outstanding | Average Remaining Contractual Life-years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
|-------------------------------------|-------------------------------|-------------------------------------------------------------|----------------------------------------------------|-------------------------------|----------------------------------------------------|
| \$ 4.25 5.86 | 621,355 | 5.68 | \$ 5.14 | 518,055 | \$ 5.27 |
| 6.06 7.77 | 614,912 | 5.19 | 7.18 | 563,212 | 7.23 |
| 8.07 8.94 | 127,953 | 6.35 | 8.52 | 96,645 | 8.55 |
| 9.37 10.73 | 876,099 | 9.81 | 10.66 | 19,437 | 9.93 |
| 11.40 13.16 | 511,752 | 8.74 | 13.07 | 127,360 | 13.10 |
| 13.50 18.54 | 507,454 | 7.75 | 15.19 | 230,579 | 15.20 |
| 18.71 21.83 | 231,168 | 8.16 | 20.78 | 74,449 | 20.76 |
| 22.03 22.03 | 1,281,224 | 7.49 | 22.03 | 773,189 | 22.03 |
| 22.10 36.35 | 257,700 | 6.73 | 25.72 | 207,603 | 25.82 |
| 43.82 43.82 | 6,000 | 1.93 | 43.82 | 6,000 | 43.82 |
| | 5,035,617 | 7.50 | 14.38 | 2,616,529 | 14.22 |

On November 28, 2001 the Company accelerated the vesting of 2,666 outstanding options granted under the 1996 Equity Participation Plan to one individual. Non-cash compensation of \$15,000 related to this modification of vesting was recorded in the fiscal year ended March 31, 2002. On September 1, 2000 the Company accelerated the vesting of 7,667 outstanding options granted under the 1996 Equity Participation

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Plan to one individual. Non-cash compensation of \$134,000 related to this modification of vesting was recorded in the fiscal year ended March 31, 2001.

Note 8 Shares Used in Earnings Per Share Calculations

| | Years Ended March 31, | | |
|-------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------|-----------------------------|
| | 2001 | 2002 | 2003 |
| Weighted average common shares outstanding used in calculating basic net income (loss) per share | 21,379,015 | 23,071,840 | 26,015,702 |
| Weighted average options to purchase common stock as determined by application of the treasury stock method | 1,148,430 | 879,291 | |
| Employee Stock Purchase Plan equivalents | 9,537 | 2,533 | |
| | <u> </u> | <u> </u> | <u> </u> |
| Shares used in computing diluted net income (loss) per share | <u>22,536,982</u> | <u>23,953,664</u> | <u>26,015,702</u> |

Antidilutive shares relating to stock options excluded from the calculation were 1,262,564, 2,252,224 and 3,437,227 shares for the fiscal years ended March 31, 2001, 2002, and 2003, respectively.

Note 9 Income Taxes

The provision (benefit) for income taxes includes the following:

| | Years Ended March 31, | | |
|---------------------------------|------------------------------|-----------------------------|-----------------------------|
| | 2001 | 2002 | 2003 |
| | (In thousands) | | |
| Current tax provision (benefit) | | | |
| Federal | \$2,629 | \$(1,997) | \$ (5,363) |
| State | | | (454) |
| Foreign | 1,063 | 556 | 142 |
| | <u> </u> | <u> </u> | <u> </u> |
| | 3,692 | (1,441) | (5,675) |

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| | | | |
|--------------------------------------------|---------|-----------|------------|
| | _____ | _____ | _____ |
| Deferred tax (benefit) provision | | | |
| Federal | (137) | 52 | (2,669) |
| State | (80) | (1,623) | (3,089) |
| Foreign | (53) | 53 | |
| | _____ | _____ | _____ |
| | (270) | (1,518) | (5,758) |
| | _____ | _____ | _____ |
| Total provision (benefit) for income taxes | \$3,422 | \$(2,959) | \$(11,433) |
| | _____ | _____ | _____ |

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Significant components of the Company's net deferred tax assets are as follows:

| | As of March 31, | |
|----------------------------------------------|------------------------|-------------------|
| | 2002 | 2003 |
| | (In thousands) | |
| Deferred tax assets: | | |
| Warranty reserve | \$ 349 | \$ 954 |
| Inventory reserve | 1,666 | 1,672 |
| Accrued vacation | 999 | 1,076 |
| Net operating loss carryforward | | 5,057 |
| Property and equipment and intangible assets | (402) | (4,440) |
| Tax credits | 1,018 | 5,466 |
| Joint venture | 251 | 31 |
| Other | 215 | 97 |
| | <u> </u> | <u> </u> |
| Net deferred tax assets | <u>\$4,096</u> | <u>\$ 9,913</u> |

A reconciliation of the provision (benefit) for income taxes to the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows:

| | Years Ended March 31, | | |
|---------------------------------------------|------------------------------|-------------------|-------------------|
| | 2001 | 2002 | 2003 |
| | (In thousands) | | |
| Tax expense (benefit) at statutory rate | \$4,690 | \$ (281) | \$ (7,373) |
| State tax provision, net of federal benefit | (223) | (218) | (1,227) |
| Tax credits | (928) | (2,439) | (3,167) |
| Other | (117) | (21) | 334 |
| | <u> </u> | <u> </u> | <u> </u> |
| | <u>\$3,422</u> | <u>\$(2,959)</u> | <u>\$(11,433)</u> |

As of March 31, 2003, the Company had federal and state net operating loss carryforwards of approximately \$13.9 million and \$4.1 million, respectively, which begin to expire in 2023 and 2014, respectively. The Company also

had federal and state research and development tax credit carryforwards of approximately \$3.2 million and \$2.8 million, respectively, that begin to expire in 2021 for federal purposes and do not expire for state purposes. If the Company has an ownership change as defined under Internal Revenue Code section 382, it may have an annual limitation on the utilization of its net operating loss and tax credit carryovers.

Note 10 Employee Benefits

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code. The Company may make discretionary contributions to the plan which vest equally over six years. Employees who are at least 18 years of age are eligible to participate in the plan. Participants are entitled, upon termination or retirement, to their vested portion of the plan assets which are held by an independent trustee. Discretionary contributions accrued by the Company during fiscal years 2001 and 2002 amounted to \$1.8 million and \$2.3 million, respectively. The Company did not record a discretionary contribution for fiscal year 2003. The cost of administering the plan is not significant.

Table of Contents**VIASAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****Note 11 Commitments**

The Company leases office facilities under noncancelable operating leases with initial terms ranging from one to ten years which expire between June 2003 and December 2009. Certain of the Company's facilities leases contain option provisions which allow for extension of the lease terms. Rent expense, which is recognized on a straight-line basis, was \$4.2 million, \$5.2 million and \$6.9 million in fiscal years 2001, 2002 and 2003, respectively.

Future minimum lease payments are as follows:

| <u>Year Ending March 31,</u> | (In thousands) |
|------------------------------|---------------------------|
| 2004 | \$ 5,304 |
| 2005 | 4,895 |
| 2006 | 2,788 |
| 2007 | 2,570 |
| 2008 | 2,570 |
| Thereafter | 4,284 |
| | <hr/> |
| | \$ 22,411 |
| | <hr/> |

Capital lease obligations of \$141,000 due in the fiscal year ended March 31, 2004 are included in other accrued liabilities. The capital lease obligations were assumed in the acquisition of U.S. Monolithics and are secured by tangible personal property of U.S. Monolithics. The net fixed assets included in property plant and equipment subject to the capital lease obligations were \$899,000 at March 31, 2002 and \$625,000 at March 31, 2003.

Note 12 Contingencies

The Company is currently a party to various government and commercial contracts which require the Company to meet performance covenants and project milestones. Under the terms of these contracts, failure by the Company 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. The Company is currently not in compliance (or in the past was not in compliance) with the performance or milestone requirements of certain of these contracts. Historically, the Company's customers have not elected to terminate such contracts or seek liquidated damages from the Company and management does not believe that its existing customers will do so; therefore, the Company has not accrued for any potential liquidated damages or penalties. However, there can be no assurance that our customers will not elect to terminate such contracts or seek liquidated damages or penalties from us in the future.

On October 23, 2002, ViaSat sent Scientific-Atlanta a claim for indemnification under the terms of the asset purchase agreement related to the acquisition of Scientific-Atlanta's 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. The parties are currently engaged in discovery. ViaSat intends to vigorously prosecute its claims.

Note 13 Product Warranty

We provide limited warranties on most of our products for periods of up to five years. We record a liability for our warranty obligations when products are shipped based upon an estimate of expected warranty costs. Amounts expected to be incurred within twelve months are classified as a current liability. For mature products the warranty costs estimates are based on historical experience with the particular product. For newer products that do not have a history of warranty costs, we base our estimates on our experience with the technology involved and the types of failure that may occur. It is possible that our underlying assumptions will not reflect the actual experience and in that case, future adjustments will be made to the recorded warranty obligation. The following table reflects the change in our warranty accrual in fiscal years 2001, 2002 and 2003.

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| | Years Ended March 31, | | |
|---------------------------------------------------------|------------------------------|-------------------|-------------------|
| | 2001 | 2002 | 2003 |
| | (In thousands) | | |
| Balance, beginning of period | \$ 1,049 | \$ 1,332 | \$ 1,498 |
| Acquisitions | 1,015 | 515 | |
| Change in liability for warranties issued in period | 809 | 888 | 1,613 |
| Settlements made (in cash or in kind) during the period | (1,541) | (1,237) | (784) |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance, end of period | <u>\$ 1,332</u> | <u>\$ 1,498</u> | <u>\$ 2,327</u> |

Note 14 Immeon Networks, L.L.C.

In January 2001 the Company and Loral Skynet formed a 50-50 joint venture named Immeon Networks, L.L.C. (Immeon). Pursuant to the Joint Venture Agreement and related agreements, the Company was obligated to provide a minimum level of marketing, selling, administrative and network operation services to Immeon while Loral Skynet was to provide Immeon with satellite bandwidth. ViaSat has accounted for the costs incurred on behalf of Immeon as Cost of revenues. ViaSat was eligible to receive reimbursement for costs incurred, contingent upon Immeon achieving positive cash flows in the future. Because the collectibility of such reimbursements was not reasonably assured at the time the services were provided, revenue related to such services has not been recognized in the accompanying financial statements. The cost of these services, which is included in Cost of revenues for fiscal years 2001, 2002 and 2003, is \$558,000, \$2.8 million and \$1.7 million, respectively. In January 2004, Loral Skynet formally withdrew from the Immeon joint venture through Loral's bankruptcy, so ViaSat is now the sole owner and operator of Immeon.

Condensed combined financial information for Immeon, which was accounted under the equity method through January 2, 2004, is summarized below (amounts in thousands). Immeon will be consolidated by ViaSat from January 3, 2004. Immeon maintains its financial statements on a calendar year basis.

| | December 31, 2002 | December 31, 2001 |
|-----------------------------------------|------------------------------|------------------------------|
| Current assets | \$ 432 | \$ 127 |
| Non-current assets | | |
| Current liabilities | 100 | 5 |
| Amounts contingently payable to Members | 5,922 | 3,109 |
| Non-current liabilities | <u> </u> | <u> </u> |

| | | |
|--------------------------------------|-------------------|-------------------|
| Total members' deficit | (5,590) | (2,987) |
| | <u> </u> | <u> </u> |
| ViaSat's Investment in joint venture | \$ | \$ |
| | <u> </u> | <u> </u> |

| | Year Ended December 31, | |
|-----------------------------------------------------------------------------|--------------------------------|-------------|
| | 2002 | 2001 |
| Operating revenues | \$ 430 | \$ 100 |
| Operating expenses | (3,033) | (3,089) |
| Net loss | \$(2,603) | \$(2,989) |
| Company's share of net loss, after elimination of intercompany transactions | \$ | \$ |

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VIASAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 15 Segment Information

Operating segments are determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. We are organized primarily on the basis of products with commercial and government (defense) communication applications. The nature of our products and their potential uses will occasionally create a situation where a commercially developed product will be sold to a customer and the customer is the government or the customer's end user is the government or when a product developed for the government is sold to customers for commercial applications. For segment reporting, the revenues and operating profits generated from these products are recorded in the segment of the segment's primary business. The following table summarizes revenues and operating profits by operating segment for the fiscal years ended March 31, 2001, 2002 and 2003. Certain corporate general and administrative costs, amortization of intangible assets and charges of acquired in-process research and development are not allocated to either segment and accordingly, are shown as reconciling items from segment operating profit and consolidated operating profit. Assets are not tracked by operating segment. Consequently, it is not practical to show assets by operating segments. Depreciation expense is allocated to operating segments as an overhead charge based on direct labor dollars within the operating segments.

| | Years Ended March 31, | | |
|------------------------------------------------------------|------------------------------|-------------------|--------------------|
| | 2001 | 2002 | 2003 |
| | restated | restated | restated |
| | (In thousands) | | |
| Revenues | | | |
| Commercial | \$ 101,942 | \$ 132,890 | \$ 102,694 |
| Government | 62,410 | 62,738 | 82,328 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total revenues | 164,352 | 195,628 | 185,022 |
| Segment operating profits | | | |
| Commercial | 8,410 | 618 | (22,062) |
| Government | 9,278 | 8,485 | 11,613 |
| | <u> </u> | <u> </u> | <u> </u> |
| Segment operating profit (loss) before corporate and other | 17,688 | 9,103 | (10,449) |
| Corporate | 551 | (397) | (1,343) |
| Amortization of intangibles | (3,789) | (6,959) | (8,448) |
| Acquired in-process research and development | (2,334) | (2,550) | |
| | <u> </u> | <u> </u> | <u> </u> |
| Total operating profits (losses) | <u>\$ 12,116</u> | <u>\$ (803)</u> | <u>\$ (20,240)</u> |

Revenue information by geographic area for the fiscal years ended March 31, 2001, 2002 and 2003 is as follows:

| | Years Ended March 31, | | |
|---------------|------------------------------|-------------------|-------------------|
| | 2001 | 2002 | 2003 |
| | (In thousands) | | |
| North America | \$ 130,011 | \$ 143,702 | \$ 146,614 |
| Europe | 15,375 | 25,499 | 22,176 |
| Asia Pacific | 17,198 | 24,469 | 14,942 |
| Latin America | 1,768 | 1,958 | 1,290 |
| | <u> </u> | <u> </u> | <u> </u> |
| | \$ 164,352 | \$ 195,628 | \$ 185,022 |
| | <u> </u> | <u> </u> | <u> </u> |

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 \$818,000, \$534,000 and \$235,000 at March 31, 2001, 2002 and 2003, respectively.

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
For the Three Years Ended March 31, 2003

| <u>Date</u> | <u>Allowance for Doubtful Accounts</u> | <u>Allowance for Warranty Costs</u> | <u>Total</u> |
|---------------------------------|------------------------------------------------|---------------------------------------------|--------------|
| | | (In thousands) | |
| Balance, March 31, 2000 | \$ | \$ 1,049 | \$ 1,049 |
| Satellite Networks acquisition | 439 | 1,015 | 1,454 |
| Provision | 316 | 809 | 1,125 |
| Write-off | (439) | (1,541) | (1,980) |
| | <hr/> | <hr/> | <hr/> |
| Balance, March 31, 2001 | \$ 316 | \$ 1,332 | \$ 1,648 |
| Comsat Laboratories acquisition | 55 | 515 | 570 |
| Provision | 5,046 | 888 | 5,934 |
| Write-off | (4,930) | (1,237) | (6,167) |
| | <hr/> | <hr/> | <hr/> |
| Balance, March 31, 2002 | \$ 487 | \$ 1,498 | \$ 1,985 |
| Provision | 475 | 1,613 | 2,088 |
| Write-off | (289) | (784) | (1,073) |
| | <hr/> | <hr/> | <hr/> |
| Balance, March 31, 2003 | \$ 673 | \$ 2,327 | \$ 3,000 |
| | <hr/> | <hr/> | <hr/> |