

VIASAT INC  
Form 10-K405/A  
October 12, 2001  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**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, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number (0-21767)

**VIASAT, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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.

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The aggregate market value of the voting stock held by non-affiliates of the registrant, as of June 21, 2001 was approximately \$258,691,865 (based on the closing price for shares of the registrant's Common Stock as reported by the Nasdaq National Market for the last trading day prior to that date). 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 21, 2001 was 22,067,299.

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#### EXHIBIT 23.2

The following items of ViaSat, Inc.'s Annual Report on Form 10-K for the fiscal year ended March 31, 2001 are hereby amended. Each such item is set forth in its entirety, as amended.

### **PART II**

#### **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 have achieved 15 consecutive years of revenue growth and 14 consecutive years of profitability. Historically, our revenues have been primarily generated from contracts with the U.S. Department of Defense. However, on April 25, 2000 we acquired the Satellite Networks Business which has substantially increased our revenue and helped accelerate the development of our commercial business. Our commercial business accounted for approximately 62% of revenues in fiscal year 2001 compared to 24% of revenues in fiscal year 2000.

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 80.3% for fiscal year 1999, 79.1% for fiscal year 2000, and 94.0% for fiscal year 2001, of our revenues were derived from fixed-price contracts which require us to provide products and services under a contract at a stipulated price. Our proportion of fixed-price contracts has continued to increase as our commercial business has grown and as government customers are increasingly relying on fixed-price awards. 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

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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 \$40.5 million or 56.6% of our total revenues during fiscal year 1999, \$35.0 million or 46.2% of our total revenues during fiscal year 2000 and \$79.0 million or 48.1% of our total revenues during fiscal year 2001.

We 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 and prototype materials related to research and development programs. Independent research and development expenses were approximately 10.7% of revenues during fiscal year 1999, 10.0% of revenues during fiscal year 2000, and 3.8% of revenues during fiscal year 2001. As a government contractor, we are able to recover a portion of our independent research and development expenses pursuant to our government contracts.

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#### **Results of Operations**

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

	Years Ended March 31,		
	1999	2000	2001
Revenues	100.0%	100.0%	100.0%
Cost of revenues	61.8	60.0	68.7
Gross profit	38.2	40.0	31.3
Operating expenses:			
Selling, general and administrative	14.1	14.9	16.1
Independent research and development	10.7	10.0	3.8
Acquired in-process research and development			1.4
Amortization of intangible assets			2.3
Income from operations	13.4	15.1	7.7
Income before income taxes	14.2	16.3	8.3
Provision for income taxes	5.4	5.9	2.1
Net income	8.8	10.4	6.2

#### **Fiscal Year 2001 Compared to Fiscal Year 2000**

*Revenues.* Revenues increased 116.6% from \$75.9 million for fiscal year 2000 to \$164.4 million for fiscal year 2001. This increase was primarily due to the acquisition of the Satellite Networks Business as well as improvements in revenues generated by commercial broadband and other development programs including the multifunction information distribution system (MIDS). These increases were partially offset by a decrease in revenues resulting from completion of various production contracts.

*Gross Profit.* Gross profit increased 69.7% from \$30.3 million (40.0% of revenues) for fiscal year 2000 to \$51.5 million (31.3% of revenues) for fiscal year 2001. The increase in gross profit was primarily due to higher volumes related to the acquisition of the Satellite Networks Business and broadband development programs. The decrease as a percentage of revenues resulted from lower volumes of various high margin products and increased volumes of lower margin development projects.

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*Selling, General and Administrative Expenses.* Selling, general and administrative (SG&A) expenses increased 135.0% from \$11.3 million (14.9% of revenues) for fiscal year 2000 to \$26.5 million (16.1% of revenues) for fiscal year 2001. The increase in SG&A expenses was primarily due to the additional costs from the Satellite Networks Business, transition costs related to the acquisition, marketing of commercial products, increased business development, and additional administrative staffing to support our growth. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Some SG&A expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

*Independent Research and Development.* Independent research and development (IR&D) expenses decreased 18.7% from \$7.6 million (10.0% of revenues) for fiscal year 2000 to \$6.2 million (3.8% of revenues) for fiscal year 2001. This decrease resulted from the increased awards of funded development contracts related to both our defense and commercial products.

*Acquired In-Process Research and Development.* The acquisition of the Satellite Networks Business was accounted for by the purchase method of accounting. In connection with this acquisition, a charge of \$2.3 million for purchased in-process research and development ( IPR&D ) was included in our results.

An independent valuation was performed and used as an aid in determining the fair value of the purchased IPR&D projects. There were three product areas 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

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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 Satellite Networks Business also has the SkyRelay and the SkyLynx 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 will 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 production for this next generation SkyRelay product is expected to begin in fiscal 2002. The SkyLynx related IPR&D projects are the Mesh Working and 2mbps Channel Unit. Based on the same completion criteria as SkyRelay, it was estimated the SkyLynx related IPR&D was 60% complete at the date of acquisition and would require approximately \$385,000 to complete. The estimated completion date at the time of acquisition was in fiscal 2002 for both projects. Also using the income approach, the value calculated for IPR&D associated with SkyLynx was \$400,000. The IPR&D for the SkyRelay and SkyLynx products continue progress, in all material respects, consistently with our original assumptions that were provided to the independent appraiser and used to value the IPR&D.

*Amortization of Intangible Assets.* The acquisition of the Satellite Networks Business was accounted for by the purchase method of accounting. Intangible assets of \$25.0 million and goodwill of \$4.5 million are being amortized in connection with this acquisition. The intangible assets are being amortized over useful lives ranging from three to nine years. For the fiscal year ended March 31, 2001 amortization expense was \$3.8 million for the period from April 25, 2000 to March 31, 2000.

*Interest Expense.* Interest expense decreased from \$157,000 for fiscal year 2000 to \$78,000 for fiscal year 2001. Interest expense relates to loans for the purchase of capital equipment, which are generally three year variable-rate term loans. Total outstanding equipment loans were \$1.2 million at March 31, 2000 and \$336,000 at March 31, 2001.

*Interest Income.* Interest income increased from \$1.1 million for fiscal year 2000 to \$1.7 million for fiscal year 2001. This increase resulted from higher average invested cash balances and higher yields.

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*Provision for Income Taxes.* Our effective income tax rate decreased from 36% for fiscal year 2000 to 25% for fiscal year 2001. The decrease relates primarily to a increases in estimates of prior period research and development tax credits.

### **Fiscal Year 2000 Compared to Fiscal Year 1999**

*Revenues.* Revenues increased 6.1% from \$71.5 million for fiscal year 1999 to \$75.9 million for fiscal year 2000. This was primarily due to an increase in our commercial revenues as a result of our Science Applications International Corporation (SAIC) and Star Cruises Management Ltd. commercial broadband contracts, offset in part by lower revenues from volumes of selected UHF defense products.

*Gross Profit.* Gross profit increased 11.0% from \$27.3 million (38.2% of revenues) for fiscal year 1999 to \$30.3 million (40.0% of revenues) for fiscal year 2000. The increase in gross profit was primarily due to an improvement in our commercial margins as a result of greater commercial volumes and increased operating efficiencies in the commercial business.

*Selling, General and Administrative Expenses.* SG&A expenses increased 11.7% from \$10.1 million (14.1% of revenues) for fiscal year 1999 to \$11.3 million (14.9% of revenues) for fiscal year 2000. The increase in SG&A expenses reflects increased expenditures relating to the marketing of commercial products, increased business development and bid and proposal expenses for defense programs, and additional administrative staffing.

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*Independent Research and Development.* IR&D expenses remained at \$7.6 million for both fiscal years but decreased as a percentage of revenues (10.7% of revenues for fiscal 1999 and 10.0% for fiscal 2000.) The decrease as a percentage of revenues resulted in part from the award of funded development contracts related to our commercial products, and from the overall increase in sales.

*Interest Expense.* Interest expense decreased from \$250,000 for fiscal year 1999 to \$157,000 for fiscal year 2000. Interest expense relates to loans for the purchase of capital equipment, which are generally three year variable-rate term loans. Total outstanding equipment loans were \$2.5 million at March 31, 1999 and \$1.2 million at March 31, 2000.

*Interest Income.* Interest income increased from \$834,000 for fiscal year 1999 to \$1.1 million for fiscal year 2000. This increase resulted from higher average invested cash balances and higher yields, offset in part by a decrease in interest income from overdue government receivables from \$102,000 for fiscal year 1999 to \$45,000 for fiscal year 2000.

*Provision for Income Taxes.* Our effective income tax rate decreased from 38% for fiscal year 1999 to 36% for fiscal year 2000. The decrease relates primarily to greater than anticipated research and development tax credits in prior years.

### **Backlog**

As of March 31, 2001, we had firm backlog of \$236.2 million, of which \$212.3 million was funded. This compares to firm backlog of \$88.2 million at March 31, 2000, of which \$58.6 million was funded, not including options of \$53.3 million. Of the \$236.2 million in firm backlog at March 31, 2001, approximately \$93.2 million is expected to be delivered in fiscal year 2002, approximately \$46.9 million is expected to be delivered in fiscal year 2003 and the balance is expected to be delivered in fiscal year 2004 and thereafter. The increase in backlog results from growth in total awards for both commercial and defense products from \$119.3 million for fiscal year 2000 to \$238.8 million for fiscal year 2001. We include in our backlog only those orders for which we have accepted purchase orders. Our firm backlog does not include contract options of \$55.4 million. These options include \$43.8 million of Indefinite Delivery/Indefinite Quantity (IDIQ) contracts for our UHF DAMA satellite communications products and \$11.6 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.

### **Recent Accounting Pronouncement**

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, and for hedging activities. In June 1999 the Financial Accounting Standards Board issued SFAS No. 137 Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No.133, which delayed the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company is required to and will adopt SFAS No. 133 in the first quarter of fiscal 2002. The Company is still

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evaluating the impact of SFAS No. 133 and therefore cannot estimate the impact on its consolidated results of operations or financial position.

### **Liquidity and Capital Resources**

We have financed our operations to date primarily with cash flows from operations, bank line of credit financing, equity financing and loans for the purchase of capital equipment. Cash used in operating activities in fiscal year 2001 was \$9.9 million as compared to cash provided by operating activities in fiscal year 2000 of \$3.7 million. The increase in cash used in operating activities for fiscal year 2001 compared to the prior year was primarily due to an increase in accounts receivable and inventory due to the new business, partially offset by an increase in accounts payable.

Cash used in investing activities in fiscal year 2001 was \$65.3 million as compared to cash provided by investing activities in 2000 of \$11.0 million. During fiscal year 2001, we acquired the Satellite Networks Business for cash of \$57.9 million. In addition, we acquired \$7.5 million in equipment in fiscal 2001 compared to \$4.8 million of equipment in fiscal 2000, excluding the acquisition of the Satellite Networks Business.

Cash provided by financing activities in fiscal year 2001 was \$74.4 million as compared to cash used in financing activities in 2000 of \$25,000. This increase was primarily the result of completing a secondary public stock offering for \$73.2 million.

At March 31, 2000 we had \$19.6 million in cash and cash equivalents and short-term investments, \$38.2 million in working capital and \$1.2 million in long-term debt which consisted of equipment financing. At March 31, 2001, we had \$17.7 million in cash, cash equivalents and short-term investments, \$84.3 million in working capital and \$336,000 in equipment financing. We had no outstanding borrowings under our line of credit at March 31, 2001.

On June 21, 2001 we executed a one year Revolving/Term Loan Agreement of \$25 million from Union Bank of California, N.A. and Washington Mutual Bank, with Union Bank of California, N.A., as Administrative Agent.

On September 15, 2000 ORBCOMM Global, L.P. (ORBCOMM) 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. We have approximately \$5.0 million worth of receivables and other assets currently at risk with ORBCOMM. We cannot make assurances that the assets will be fully recovered. If ORBCOMM is unable to successfully restructure its operations it could cause ViaSat to incur losses up to the amount of the assets at risk; however, we have not made any adjustments to the recorded amount as it is not possible at this time to reasonably estimate or determine what loss, if any, will be incurred.

Our future capital requirements will depend upon many factors, including the expansion of our research and development and marketing efforts and the nature and timing of orders. Additionally, we will continue to evaluate possible acquisitions of, or investments in complementary businesses, products and technologies which may require the use of cash. We believe that our current cash balances and net cash expected to be provided by operating activities will be sufficient to meet our operating requirements for at least the next 12 months. However, we may sell

additional equity or debt securities or obtain credit facilities to further enhance our liquidity position. The sale of additional securities could result in additional dilution of our stockholders. We invest our cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

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### **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. Summarized quarterly data for fiscal years 2000 and 2001 are as follows (in thousands, except per share data):

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
<b>2000</b>				
Revenues	\$ 17,035	\$ 17,017	\$ 18,041	\$ 23,787
Gross profit	7,326	7,459	7,548	7,990
Income from operations	2,788	2,736	2,616	3,324
Net income	1,805	1,804	2,007	2,290
Basic net income per share	0.11	0.11	0.12	0.14
Diluted net income per share	0.11	0.11	0.12	0.13
<b>2001</b>				
Revenues	\$ 36,626	\$ 39,730	\$ 43,093	\$ 44,903
Gross profit	12,647	12,364	13,627	12,814
Income from operations	2,486	3,201	3,255	3,732
Net income	1,955	2,434	2,715	3,161
Basic net income per share	0.10	0.11	0.12	0.14
Diluted net income per share	0.09	0.11	0.12	0.14

### **Item 8. Financial Statements**

Our financial statements at March 31, 2001 and 2000, and for each of the three years in the period ended March 31, 2001, and the Report of PricewaterhouseCoopers LLP, Independent Accountants, are included in this annual report on pages F-1 through F-17.

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### **PART IV**

### **Item 14. Exhibits, Financial Statement Schedules, and Reports On Form 8-K**

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(a) Documents filed as part of the report:	
(1) Report of Independent Accountants	F-1
Consolidated Balance Sheet as of March 31, 2000 and 2001	F-2
Consolidated Statement of Income for the years ended March 31, 1999, 2000 and 2001	F-3
Consolidated Statement of Cash Flows for the years ended March 31, 1999, 2000 and 2001	F-4
Consolidated Statement of Stockholders Equity for the years ended March 31, 1999, 2000 and 2001	F-5
Notes to the Consolidated Financial Statements	F-6

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

<u>Exhibit Numbers</u>	<u>Description of Exhibit</u>
23.2	Consent of Independent Accountants

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### **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 12, 2001

ViaSat, Inc.

By: \_\_\_\_\_ /s/ MARK D. DANKBERG

Mark D. Dankberg  
*Chairman, President and Chief Executive Officer*

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### **REPORT OF INDEPENDENT ACCOUNTANTS**

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

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In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) appearing on page 36 present fairly, in all material respects, the financial position of ViaSat, Inc. and its subsidiaries at March 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 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 14(a)(2) appearing on page 36 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 auditing standards generally accepted in the United States of America, which 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.

PRICEWATERHOUSECOOPERS LLP

San Diego, California

June 15, 2001, except for Note 14 for which the date is June 21, 2001

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#### VIASAT, INC.

#### CONSOLIDATED BALANCE SHEETS

	<u>As of March 31, 2000</u>	<u>As of March 31, 2001</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,520,000	\$ 17,721,000
Short-term investments	121,000	
Accounts receivable, net	26,268,000	64,105,000
Inventory	3,122,000	22,916,000
Deferred income taxes	1,813,000	1,792,000
Other current assets	2,167,000	13,416,000
Total current assets	53,011,000	119,950,000
Intangible assets, net		25,744,000
Property and equipment, net	8,164,000	19,888,000
Other assets	755,000	3,796,000
Total assets	\$ 61,930,000	\$ 169,378,000
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,934,000	\$ 20,310,000
Accrued liabilities	5,001,000	14,970,000
Current portion of notes payable	907,000	336,000
Total current liabilities	14,842,000	35,616,000

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Notes payable	336,000	
Other liabilities	755,000	604,000
Total long-term liabilities	1,091,000	604,000
Commitments and contingencies (Notes 10 & 11)		
Minority interest in consolidated subsidiary		351,000
Stockholders' equity:		
Series A, convertible preferred stock, \$.0001 par value 5,000,000 shares authorized; no shares issued and outstanding at March 31, 2000 and 2001, respectively		
Common stock, \$.0001 par value, 100,000,000 shares authorized; 16,393,208 and 22,007,650 shares issued and outstanding at March 31, 2000 and 2001, respectively	2,000	2,000
Paid in capital	18,932,000	96,154,000
Retained earnings	27,063,000	37,328,000
Accumulated other comprehensive income (loss)		(677,000)
Total stockholders' equity	45,997,000	132,807,000
Total liabilities and stockholders' equity	\$ 61,930,000	\$ 169,378,000

See accompanying notes to the consolidated financial statements

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**VIASAT, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended March 31,		
	1999	2000	2001
Revenues	\$ 71,509,000	\$ 75,880,000	\$ 164,352,000
Cost of revenues	44,182,000	45,557,000	112,900,000
Gross profit	27,327,000	30,323,000	51,452,000
<b>Operating expenses:</b>			
Selling, general and administrative	10,093,000	11,269,000	26,482,000
Independent research and development	7,639,000	7,590,000	6,173,000
Acquired in-process research and development			2,334,000
Amortization of intangible assets			3,789,000
Income from operations	9,595,000	11,464,000	12,674,000
<b>Other income (expense):</b>			

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Interest income	834,000	1,070,000	1,725,000
Interest expense	(250,000)	(157,000)	(78,000)
Minority interest			(76,000)
Equity in loss of joint venture			(558,000)
Income before income taxes	10,179,000	12,377,000	13,687,000
Provision for income taxes	3,883,000	4,471,000	3,422,000
Net income	\$ 6,296,000	\$ 7,906,000	\$ 10,265,000
Basic net income per share	\$ 0.39	\$ 0.49	\$ 0.48
Diluted net income per share	\$ 0.39	\$ 0.45	\$ 0.46
Shares used in computing basic net income per share	15,953,696	16,193,000	21,379,015
Shares used in computing diluted net income per share	16,345,320	17,422,444	22,536,982

See accompanying notes to the consolidated financial statements

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**VIASAT, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended March 31,		
	1999	2000	2001
<b>Cash flows from operating activities:</b>			
Net income	\$ 6,296,000	\$ 7,906,000	\$ 10,265,000
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	2,853,000	3,292,000	9,065,000
Acquired in-process research and development			2,334,000
Deferred income taxes	(1,082,000)	843,000	(270,000)
Minority interest in consolidated subsidiary			351,000
Non-cash compensation			134,000
Tax benefit from exercise of stock options	82,000	68,000	521,000
<b>Increase (decrease) in cash resulting from changes in:</b>			
Accounts receivable	2,880,000	(10,092,000)	(21,018,000)
Inventory	2,162,000	(597,000)	(15,593,000)
Other assets	46,000	(1,686,000)	(13,447,000)
Accounts payable	(801,000)	5,180,000	10,246,000
Accrued liabilities	940,000	(1,026,000)	6,786,000
Other liabilities	(11,000)	(171,000)	(347,000)

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Net cash provided by (used in) operating activities	13,365,000	3,717,000	(10,973,000)
<b>Cash flows from investing activities:</b>			
Acquisition of a business			(57,904,000)
Purchases of short-term investments, net	(8,870,000)	14,667,000	121,000
Purchases of property and equipment	(2,497,000)	(4,826,000)	(7,468,000)
Net cash (used in) provided by investing activities	(11,367,000)	9,841,000	(65,251,000)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of notes payable	1,092,000		
Repayment of notes payable	(1,234,000)	(1,219,000)	(907,000)
Proceeds from issuance of common stock, net of issuance costs	859,000	1,176,000	75,351,000
Net cash provided by financing activities	717,000	(43,000)	74,444,000
Effect of exchange rate changes on cash			(19,000)
Net increase (decrease) in cash and cash equivalents	2,715,000	13,515,000	(1,799,000)
Cash and cash equivalents at beginning of year	3,290,000	6,005,000	19,520,000
Cash and cash equivalents at end of year	\$ 6,005,000	\$ 19,520,000	\$ 17,721,000
<b>Supplemental information:</b>			
Cash paid for interest	\$ 250,000	\$ 157,000	\$ 82,000
Cash paid for income taxes	\$ 4,263,000	\$ 4,349,000	\$ 5,491,000
<b>Supplemental noncash financing activity:</b>			
Issuance of warrants for acquisition of business	\$	\$	\$ 1,215,000

See accompanying notes to the consolidated financial statements

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**VIASAT, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Common Stock		Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
	Number of Shares	Amount					
Balance at March 31, 1998	15,841,276	\$ 2,000	\$ 16,747,000	\$ 12,861,000		\$ 29,610,000	
Tax benefit from exercise of stock options			82,000			82,000	
Exercise of stock options	120,962		334,000			334,000	
Issuance of stock under Employee Stock Purchase Plan	106,168		525,000			525,000	

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Net income				6,296,000		6,296,000	
Balance at March 31, 1999	16,068,406	2,000	17,688,000	19,157,000		36,847,000	
Tax benefit from exercise of stock options			68,000			68,000	
Exercise of stock options	228,448		681,000			681,000	
Issuance of stock under Employee Stock Purchase Plan	96,354		495,000			495,000	
Net income				7,906,000		7,906,000	
Balance at March 31, 2000	16,393,208	2,000	18,932,000	27,063,000		45,997,000	
Exercise of stock options	324,076		1,253,000			1,253,000	
Tax benefit from exercise of stock options			521,000			521,000	
Issuance of stock under Employee Stock Purchase Plan	66,216		911,000			911,000	
Issuance for stock for secondary public offering, net of issuance costs of \$864,000	5,224,150		73,188,000			73,188,000	
Issuance of warrants			1,215,000			1,215,000	
Non-cash compensation modification of stock options			134,000			134,000	
Net income				10,265,000		10,265,000	\$ 10,265,000
Foreign currency translation					\$ (677,000)	(677,000)	(677,000)
Comprehensive income							\$ 9,588,000

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. (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.

*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 estimates of our warranty obligations.

*Cash Equivalents*

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

### *Short-term Investments*

At March 31, 2000 and 2001, 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, 2000 and 2001 totaled \$16,769,000 and \$11,964,000, respectively. The Company has included \$16,648,000 and \$11,964,000 of these securities in cash and cash equivalents as of March 31, 2000 and 2001, respectively, as they have original maturities of less than 90 days. The remaining \$121,000 as of March 31, 2000 has been classified as short-term investments.

### *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 \$65,478,000, \$53,859,000 and \$62,410,000 for the years ended March 31, 1999, 2000 and 2001, respectively. Revenues from commercial customers amounted to \$3,836,000, \$18,409,000 and \$101,942,364 for the years ended March 31, 1999, 2000 and 2001 respectively. The Company's five largest contracts (by revenues) generated approximately 61%, 35% and 36% of the Company's total revenues for the fiscal year ended March 31, 1999, 2000 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.

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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 1997. Contract revenues and accounts receivable are stated at amounts which are expected to be realized upon final settlement.

### *Unbilled Accounts Receivable*

Unbilled receivables consist of costs and fees earned and billable on contract completion or other specified events. The majority of 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. Concentrations of credit risk with respect to receivables are generally limited because the Company performs ongoing credit evaluations. The Company also maintains reserves for potential credit losses, which it considers adequate to cover such losses. See Note 11 related to ORBCOMM.

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 first-in, first-out method.

### *Independent research and development*

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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*

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 cost or net realizable value. Through March 31, 2001, \$3.2 million has been incurred and no amounts have been amortized to date, on software development products subsequent to reaching technological feasibility. Once the product is available for general release, the software development costs will be amortized on a straight line basis over their estimated useful lives.

### *Property and Equipment*

Equipment, computers, and furniture and fixtures are recorded at cost, and depreciated over estimated useful lives of three to seven years using the straight-line method. 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.

### *Intangible Assets and Goodwill*

Intangible assets and goodwill are recorded at cost and amortized using the straight-line method over their estimated useful lives, which currently range from three to nine years.

### *Long-lived Assets*

The Company assesses potential impairments to its long-lived assets and certain identifiable intangibles when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely.

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An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset and would be recorded as a reduction in the carrying value of the related asset and a charge to results of operations. No such impairment losses have been identified by the Company.

### *Warranty Reserves*

The Company provides limited warranties on certain of its products for periods of up to three 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.

### *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.

### *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.

#### *Stock Based Compensation*

The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method and provides pro forma disclosures of net income and earnings per share as if the fair value method had been applied in measuring compensation expense.

#### *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 dilutive common stock equivalents during the period. Common stock equivalents include 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.

#### *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.

#### *Fair Value of Financial Instruments*

At March 31, 2001, the carrying amounts of the Company's financial instruments, including cash equivalents, short-term investments, trade receivables, accounts payable and notes payable, approximated their fair values due to their short-term maturities.

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### *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 defense communication applications, represented by ViaSat Satellite Networks which operates primarily in the commercial market and Communication Systems Group which operates primarily in the defense market. As areas of our business grow, such as broadband systems, additional operating segments may be reported in the future.

### *Recent Accounting Pronouncements*

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, and for hedging activities. In June 1999 the Financial Accounting Standards Board issued SFAS No. 137 Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133, which delayed the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company is required to and will adopt SFAS No. 133 in the first quarter of fiscal 2002. The Company is still evaluating the impact of SFAS No. 133 and therefore cannot estimate the impact on its consolidated results of operations or financial position.

## **Note 2 Secondary Public Stock Offering and Acquisition of Satellite Networks Business**

On April 24, 2000, we completed a secondary public stock offering for the sale of 5,224,150 shares of common stock for net proceeds of approximately \$73.2 million.



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On April, 25, 2000, we completed the acquisition of the satellite networks business (the Satellite Networks Business ) of Scientific-Atlanta, Inc. for an aggregate purchase price of approximately \$57.9 million in cash (which reflects post-closing adjustments to the purchase price in accordance with the asset purchase agreement), plus warrants to purchase 100,000 shares of common stock valued at \$1.2 million. The warrants are currently vested and will expire April 25, 2002. The warrants are exercisable in increments of 25,000 shares at prices of \$26.25, \$31.25, \$36.25 and \$41.25 per share.

The Satellite Networks Business is a DAMA-based VSAT supplier with additional product lines addressing the non-DAMA VSAT market, the gateway market and the telemetry and antenna systems market.

The acquisition has been accounted for by the purchase method of accounting as defined in Accounting Principles Board Opinion No. 16, and accordingly, the operating results of the Satellite Networks Business have been included in the Company's financial statements from the date of acquisition. The purchase price of the acquisition has been allocated to the fair value of the tangible and intangible assets acquired and liabilities assumed of the Satellite Networks Business. The purchase price allocation for certain assets is preliminary and further refinements are likely to be made on the completion of final valuation studies. In connection with this acquisition, a charge of \$2.3 million for acquired in process research and development is included in our results, 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. The estimated fair value of assets acquired and liabilities assumed, which is subject to further refinement, is as follows:

Accounts receivable	\$ 17,152,000
Inventory	4,353,000
Property, plant and equipment	9,540,000
Intangible assets including goodwill	29,533,000
Acquired in-process research and development	2,334,000
Other assets	556,000
Liabilities	(4,349,000)
	_____
Total	\$ 59,119,000
	_____

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The following unaudited pro forma condensed combined financial information gives effect to the acquisition as though it had occurred on April 1, 1999. Because the Satellite Networks Business had been operated as a division of Scientific-Atlanta, its results as incorporate into the pro forma financial information may not reflect those that would have resulted had it operated as an independent entity or as a part of ViaSat.

The pro forma condensed combined financial information combines information from ViaSat's income statement for the fiscal years ended March 31, 2000 and 2001 with the Satellite Networks Business' income statement for the twelve month periods ended March 31, 2000 and 2001.

	Years Ended March 31,	
	2000	2001
	(unaudited)	(unaudited)
Revenues		
\$162,280,000	\$171,735,000	
Net income		
107,000	12,471,000	
Earnings per share		
Basic		
.01	.57	

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Diluted  
 .00 .54  
 Weighted average number of shares\*

Basic  
 21,417,150 21,736,833  
 Diluted  
 22,646,594 22,894,800

\*The weighted average number of shares includes 5,224,150 shares issued in connection with the secondary public offering.

The unaudited pro forma financial information presented is not necessarily indicative of either the results of operations that would have occurred had the acquisition taken place on April 1, 1999 or the future results of operations of the combined entities.

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**Note 3 Composition of Certain Balance Sheet Captions**

	As of March 31,	
	2000	2001
<b>Cash and cash equivalents:</b>		
Investments in debt securities	\$ 16,648,000	\$ 11,964,000
Cash	2,872,000	5,757,000
	<u>19,520,000</u>	<u>17,721,000</u>
<b>Accounts receivable, net:</b>		
Billed	\$ 13,031,000	\$ 45,099,000
Unbilled	13,237,000	19,322,000
Allowance for doubtful accounts		(316,000)
	<u>26,268,000</u>	<u>64,105,000</u>
<b>Inventory:</b>		
Raw materials	\$ 2,263,000	\$ 11,657,000
Work in process	484,000	7,770,000
Finished goods	375,000	3,489,000
	<u>3,122,000</u>	<u>22,916,000</u>
<b>Intangible assets:</b>		
Technology		\$ 9,845,000
Contracts and relationships		9,686,000
Acquired work force		5,477,000
Goodwill		4,525,000
		<u>29,533,000</u>
Less accumulated amortization		<u>(3,789,000)</u>

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		\$ 25,744,000
Property and equipment:		
Machinery and equipment	\$ 11,602,000	\$ 24,884,000
Computer equipment	5,642,000	8,585,000
Furniture and fixtures	877,000	1,651,000
	18,121,000	35,120,000
Less accumulated depreciation	(9,957,000)	(15,232,000)
	\$ 8,164,000	\$ 19,888,000
Accrued liabilities:		
Current portion of warranty reserve	\$ 799,000	\$ 1,291,000
Accrued vacation	1,188,000	2,531,000
Accrued bonus	1,004,000	1,828,000
Accrued 401(k) matching contribution	917,000	1,773,000
Collections in excess of revenues	694,000	6,196,000
Other	399,000	1,351,000
	\$ 5,001,000	\$ 14,970,000

The intangible assets are amortized using the straight-line method over their estimated useful lives of three to nine years. The technology intangible asset has several components with estimated useful lives of six to nine years, contracts and relationships intangible asset has several components with estimated useful lives of three to nine years, acquired work force has an estimated useful life of five years and goodwill has an estimated useful life of seven years.

**Note 4 Notes Payable**

	As of March 31,	
	2000	2001
Bank installment loan, with a maturity date of September 2001, total monthly payment of \$56,000 with interest rates ranging between 8.75% and 9.85%, collateralized by equipment	\$ 1,243,000	\$ 336,000
Less current portion	(907,000)	(336,000)
	\$ 336,000	\$ 0

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**Note 5 Common Stock and Options**

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). No options have been issued under the Plan since July 1996.

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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, 2001, the Company had granted options to purchase 4,525,466 shares of common stock under this plan with vesting terms of three to five years and 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, 2001, the Company has issued 372,942 shares of common stock under this plan.

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

	Number of Shares	Exercise Price Per Share		Weighted Average Exercise Price Per Share
Outstanding at March 31, 1998	1,313,368	\$ .17	9.91	\$ 4.47
Options granted	648,000	3.69	8.54	6.55
Options canceled	(219,816)	.68	7.77	5.41
Options exercised	(120,960)	.17	7.07	2.78
Outstanding at March 31, 1999	1,620,592	.24	9.91	5.30
Options granted	851,600	4.25	43.82	12.98
Options canceled	(64,942)	2.05	7.77	6.67
Options exercised	(228,448)	.24	9.91	3.06
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

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The following table summarizes all options outstanding and exercisable by price range as of March 31, 2001:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life-years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
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\$ 2.05	5.38	496,980	6.26	\$ 4.46	294,650	\$ 4.39
5.78	6.38	441,176	7.24	6.10	253,175	6.23
7.02	7.77	419,138	7.33	7.65	216,703	7.65
8.07	14.97	386,700	8.97	12.23	61,135	8.61
15.09	21.83	293,100	9.19	17.33	0	0.00
22.03	22.03	1,497,350	9.49	22.03	0	0.00
22.10	35.63	277,700	8.75	25.66	68,622	25.84
36.35	36.35	2,000	8.88	36.35	667	36.35
36.56	36.56	6,000	8.91	36.56	2,000	36.56
43.82	43.82	6,000	3.93	43.82	2,100	43.82
2.05	43.82	3,826,144	8.43	15.31	899,052	7.81

On September 1, 2000 the Company accelerated the vesting of 7,667 outstanding options granted under the 1996 Equity Participation 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 6 Shares Used in Earnings Per Share Calculations**

	Years Ended March 31,		
	1999	2000	2001
Weighted average common shares outstanding used in calculating basic net income per share	15,953,696	16,193,000	21,379,015
Weighted average options to purchase common stock as determined by application of the treasury stock method	370,904	1,223,170	1,148,430
Employee Stock Purchase Plan equivalents	20,720	6,274	9,537
Shares used in computing diluted net income per share	16,345,320	17,422,444	22,536,982

Antidilutive shares and warrants excluded from the calculation were 420,735, 30,420, and 1,262,564 shares for the fiscal years ended March 31, 1999, 2000, and 2001 respectively.

**Note 7 Pro Forma Earnings Per Share**

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		
	1999	2000	2001	1999	2000	2001
Expected life (in years)	3.50-5.00	4.99-5.00	4.86	0.50	0.50	0.50
Risk-free interest rate	4.46-5.42%	5.69%	5.42%	5.66-6.22%	5.55%	5.70-6.24%
Expected volatility	50.00%	71.00%	125.00%	50.00%	71.00%	125.00%
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 1999, 2000, and 2001 was \$6.27, \$16.61, and \$18.69 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 1999, 2000 and 2001 was \$4.00, \$5.43 and \$9.23 per share, respectively.

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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, 1999, 2000 and 2001 are as follows:

	Year Ended March 31,		
	1999	2000	2001
Net income as reported	\$ 6,296,000	\$ 7,906,000	\$ 10,265,000
Pro forma net income	5,157,000	5,974,000	952,000
Pro forma basic earnings per share	0.65	0.74	0.04
Pro forma diluted earnings per share	0.65	0.70	0.04

**Note 8 Income Taxes**

The provision for income taxes includes the following:

	Years Ended March 31,		
	1999	2000	2001
Current tax provision			
Federal	\$ 3,977,000	\$ 2,947,000	\$ 2,629,000
State	988,000	681,000	
Foreign			1,063,000
	<u>4,965,000</u>	<u>3,628,000</u>	<u>3,692,000</u>
Deferred tax (benefit) provision			
Federal	(863,000)	680,000	(137,000)
State	(219,000)	163,000	(80,000)
Foreign			(53,000)
	<u>(1,082,000)</u>	<u>843,000</u>	<u>(270,000)</u>
Total provision for income taxes	<u>\$ 3,883,000</u>	<u>\$ 4,471,000</u>	<u>\$ 3,422,000</u>

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

	As of March 31,	
	2000	2001
Deferred tax assets:		
Warranty reserve	\$ 418,000	\$ 347,000

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Inventory	820,000	744,000
Accrued vacation	374,000	559,000
State income taxes	231,000	21,000
Depreciable, amortizable and other property	307,000	766,000
Other	158,000	141,000
	<u>          </u>	<u>          </u>
Total deferred tax assets	\$2,308,000	\$2,578,000
	<u>          </u>	<u>          </u>

A reconciliation of the provision 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,		
	1999	2000	2001
Tax expense at statutory rate	\$3,461,000	\$4,208,000	\$4,690,000
State tax provision, net of federal benefit	507,000	558,000	(223,000)
Research tax credit	(67,000)	(240,000)	(928,000)
Other	(18,000)	(55,000)	(117,000)
	<u>          </u>	<u>          </u>	<u>          </u>
	\$3,883,000	\$4,471,000	\$3,422,000
	<u>          </u>	<u>          </u>	<u>          </u>

**Note 9 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 have completed 90 days of service and are at least 21 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 1999, 2000 and 2001

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amounted to \$791,000, \$917,000 and \$1,772,000, respectively. The increase in the contributed amount is primarily due to the acquisition of the Satellite Networks Business. The cost of administering the plan is not significant.

**Note 10 Commitments**

The Company leases office facilities under noncancelable operating leases with initial terms ranging from one to ten years which expire between June 2002 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 \$1,312,000, \$1,939,000 and \$4,194,000 in fiscal years 1999, 2000 and 2001, respectively.

Future minimum lease payments are as follows:

Year Ending March 31,	
2002	\$ 4,317,000
2003	4,157,000

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2004	2,523,000
2005	2,408,000
2006	2,382,000
Thereafter	8,726,000
	\$24,513,000

### Note 11 Contingencies

On September 15, 2000 ORBCOMM Global, L.P. (ORBCOMM) 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. On April 23, 2001, International Licensees, LLC was approved by the bankruptcy court as the buyer of ORBCOMM. International Licensees is a consortium of current ORBCOMM licensees and other investors. There remain some conditions with respect to financing set in bankruptcy that the International Licensees must fulfill in the future. A failure to meet these conditions could result in the unwinding of the purchase by the International Licensees. We are currently in negotiations with International Licensees relating to our relationship with ORBCOMM in the future, including the potential assumption of all or part of our receivables and contracts in bankruptcy. The following table summarizes our assets related to ORBCOMM at March 31, 2001.

Accounts receivable-billed	\$4,611,000
Accounts receivable-unbilled	359,000
Inventory	123,000
	\$5,093,000

We cannot make assurances that the assets listed above will be fully recovered. If we are unable to successfully complete our negotiations with ORBCOMM regarding the assumption of our receivables and contracts in bankruptcy, or if ORBCOMM is unable to successfully restructure its operations, it would substantially limit our ability to recover the assets listed above and could cause ViaSat to incur losses which could harm our business; however, we have not made any adjustments to the recorded amount for the assets as it is not possible at this time to reasonably estimate or determine what loss, if any, will be incurred.

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.

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#### Note 12 Immeon Networks, L.L.C.

In January 2001 the Company and Loral Skynet formed a joint venture named Immeon Networks, L.L.C., (Immeon). The Company and Loral Skynet are each entitled to 50% of the net profits of Immeon, subject to certain adjustments. The Company accounts for its investment under the equity method because the Company has significant influence, but not control, of the operations of Immeon. The Company's share of net losses of Immeon is limited to the extent of the Company's investment in, advances to and financial guarantees that create additional basis in the Immeon. The Company's share of losses and advances to Immeon have reduced our investment to zero at March 31, 2001. The Company's share of the operating loss of Immeon for fiscal year 2001 is \$558,000.



**Note 13 Segment Information**

We are organized primarily on the basis of products with commercial and defense communication applications, represented by ViaSat Satellite Networks which operates primarily in the commercial market and Communication Systems Group which operates primarily in the defense market. As new areas of our business grow, such as broadband systems, additional operating segments may be reported in the future.

The following table summarizes revenues and operating profits by operating segment for the fiscal year ended March 31, 2001. The acquisition of the Satellite Networks Business resulted in a second operating segment. Certain corporate general and administrative costs, amortization of intangible assets and the charge 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.

	<b>Year Ended March 31, 2001</b>
Revenues	
ViaSat Satellite Networks	\$ 101,942,000
Communication Systems Group	62,410,000
	<hr/>
Total revenues	164,352,000
Operating profits	
ViaSat Satellite Networks	8,968,000
Communication Systems Group	9,278,000
	<hr/>
Segment operating profit before corporate and other	18,246,000
Corporate	551,000
Amortization of intangibles	(3,789,000)
Acquired in-process research and development	(2,334,000)
	<hr/>
Total operating profits	<b>\$ 12,674,000</b>

Revenue information by geographic area for the fiscal year ended March 31, 2001 is as follows:

	<b>Year Ended March 31, 2001</b>
North America	\$ 130,011,000
Europe	15,375,000
Asia Pacific	17,198,000
Latin America	1,768,000
	<hr/>
	<b>\$ 164,352,000</b>

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

The net book value of long-lived assets located outside North America was \$37,000 at March 31, 2001.

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**Note 14 Subsequent Events**

June 21, 2001 the Company executed a one year Revolving/Term Loan Agreement of \$25 million from Union Bank of California, N.A. and Washington Mutual Bank, with Union Bank of California, N.A., as Administrative Agent. Under the revolving facility and the term loan facility, the Company has the option to borrow at the bank's prime rate or at LIBOR plus, in each case, an applicable margin based on the ratio of our total debt to EBITDA (earnings before interest and taxes and depreciation and amortization). The agreement 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.