

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

**FORM 10-Q/A
AMENDMENT NO. 1**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2000.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number (0-21767)

ViaSat, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or
other
jurisdiction of
incorporation
or
organization)

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

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

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

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

The number of shares outstanding of the issuer's common stock, \$.0001 par value, as of February 8, 2001 was 21,975,742.

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SIGNATURES

The following items of ViaSat, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2000 are hereby amended. Each item is set forth in its entirety, as amended.

Part I

Item 1. Financial Statements

VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

	<u>March 31,</u> <u>2000</u>	<u>December 31,</u> <u>2000</u>
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,520,000	\$ 24,504,000
Short-term investments	121,000	
Accounts receivable	26,268,000	59,449,000
Inventory	3,122,000	21,778,000
Deferred income taxes	1,813,000	3,536,000
Other current assets	2,167,000	11,371,000
Total current assets	<u>53,011,000</u>	<u>120,638,000</u>
Property and equipment, net	8,164,000	17,297,000
Intangible assets, net		22,654,000
Other assets	755,000	2,541,000
Total assets	<u>\$ 61,930,000</u>	<u>\$ 163,130,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,934,000	\$ 18,909,000
Accrued liabilities	5,001,000	13,215,000
Current portion of notes payable	907,000	504,000
Total current liabilities	<u>14,842,000</u>	<u>32,628,000</u>
Notes payable	336,000	
Other liabilities	755,000	229,000
Total long-term liabilities	<u>1,091,000</u>	<u>229,000</u>
Contingencies (Note 6)		
Minority interest in consolidated subsidiary		332,000

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Stockholders equity:		
Common stock	2,000	2,000
Paid in capital	18,932,000	95,867,000
Retained earnings	27,063,000	34,167,000
Accumulated other comprehensive income (loss)		(95,000)
Total stockholders equity	45,997,000	129,941,000
Total liabilities and stockholders equity	\$61,930,000	\$163,130,000

See accompanying notes to Condensed Consolidated Financial Statements.

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VIASAT, INC.

**CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1999	2000	1999	2000
Revenues	\$ 18,041,000	\$ 43,093,000	\$ 52,093,000	\$ 119,449,000
Cost of revenues	10,493,000	29,466,000	29,760,000	80,811,000
Gross profit	7,548,000	13,627,000	22,333,000	38,638,000
Operating expenses:				
Selling, general and administrative	2,845,000	7,675,000	8,226,000	20,065,000
Independent research and development	2,087,000	1,589,000	5,967,000	4,955,000
Acquired in-process research and development		141,000		2,334,000
Amortization of intangible assets		967,000		2,342,000
Income from operations	2,616,000	3,255,000	8,140,000	8,942,000
Other income (expense):				
Interest income	283,000	304,000	762,000	1,330,000
Interest expense	(37,000)	(15,000)	(126,000)	(80,000)
Minority interest		(46,000)		(44,000)
Income before income taxes	2,862,000	3,498,000	8,776,000	10,148,000
Provision for income taxes	855,000	783,000	3,160,000	3,044,000
Net income	\$ 2,007,000	\$ 2,715,000	\$ 5,616,000	\$ 7,104,000
Basic net income per share	\$.12	\$.12	\$.35	\$.34
Diluted net income per share	\$.12	\$.12	\$.33	\$.32
	16,226,932	21,836,429	16,188,562	21,187,133

Shares used in basic net income per share computation				
Shares used in diluted net income per share computation	17,413,910	22,875,989	16,981,572	22,416,498

See accompanying notes to Condensed Consolidated Financial Statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine Months Ended December 31,	
	1999	2000
Cash flows from operating activities:		
Net income	\$ 5,616,000	\$ 7,104,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,531,000	5,723,000
Acquired in-process research and development		2,334,000
Deferred taxes	424,000	(1,795,000)
Tax benefit from exercise of stock options	68,000	478,000
Minority interest in consolidated subsidiary		332,000
Non-cash compensation		134,000
Increase (decrease) in cash resulting from changes in assets and liabilities (net of effect of acquisition):		
Accounts receivable	(6,155,000)	(15,311,000)
Inventory	(664,000)	(11,199,000)
Other assets	(15,000)	(10,539,000)
Accounts payable	365,000	10,115,000
Accrued liabilities	(693,000)	3,956,000
Other liabilities	200,000	(723,000)
Net cash provided by (used in) operating activities	1,677,000	(9,391,000)
Cash flows from investing activities:		
Acquisition of a business		(57,114,000)
Proceeds from sale of short-term investments	12,213,000	121,000
Purchases of property and equipment	(2,912,000)	(2,973,000)
Net cash provided by (used in) investing activities	9,301,000	(59,966,000)
Cash flows from financing activities:		
Repayment of notes payable	(961,000)	(739,000)
Proceeds from issuance of common stock, net of issuance costs	562,000	75,107,000
Net cash (used in) provided by financing activities	(399,000)	74,368,000

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Effect of exchange rate changes on cash		(27,000)
Net increase in cash and cash equivalents	10,579,000	4,984,000
Cash and cash equivalents at beginning of period	6,005,000	19,520,000
Cash and cash equivalents at end of period	\$ 16,584,000	\$ 24,504,000
Supplemental information:		
Cash paid for interest	\$ 126,000	\$ 15,000
Cash paid for income taxes	\$ 3,347,000	\$ 4,545,000

See accompanying notes to Condensed Consolidated Financial Statements.

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VIASAT, INC.

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(UNAUDITED)**

	Common Stock		Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total
	Number of Shares	Amount				
Balance at March 31, 2000	16,393,208	\$2,000	\$18,932,000	\$27,063,000		\$ 45,997,000
Tax benefit from exercise of stock options			478,000			478,000
Exercise of stock options	243,594		1,049,000			1,049,000
Issuance of shares for Employee Stock Purchase Plan	66,216		910,000			910,000
Issuance of shares for secondary public offering, net of issuance costs of \$903,000	5,224,150		73,149,000			73,149,000
Issuance of warrants to purchase 100,000 shares of common stock			1,215,000			1,215,000
Non-cash compensation related to stock options			134,000			134,000
Foreign currency translation					\$ (95,000)	(95,000)
Net income				7,104,000		7,104,000
Balance at December 31, 2000	21,927,168	\$2,000	\$95,867,000	\$34,167,000	\$ (95,000)	\$ 129,941,000

See accompanying notes to Condensed Consolidated Financial Statements.

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VIASAT, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

NOTE 1 Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2000, the condensed consolidated statement of income for the three and nine month periods ended December 31, 1999 and 2000, the condensed consolidated statement of cash flows for the nine month periods ended December 31, 1999 and 2000, and the condensed consolidated statement of stockholders' equity for the nine months ended December 31, 2000 have been prepared by the management of ViaSat, Inc., and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended March 31, 2000 included in our 2000 Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year.

The accompanying condensed consolidated financial statements include the results of TrellisWare Technologies, Inc., a majority owned subsidiary of ViaSat. All significant intercompany amounts have been eliminated. This equity interest is accounted for under the equity method of accounting as we exercise significant influence. This investment is recorded initially at cost and subsequently adjusted for net equity in income (loss) and cash contributions and distributions. Ownership of the preferred stock of TrellisWare entitles us to substantially all of the economic benefits in the preferred stock affiliate.

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.

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 stockholders' equity.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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 \$73.1 million.

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 \$57.1 million in cash (which reflects adjustments to the purchase price in accordance with the purchase agreement), plus warrants to purchase 100,000 shares of common stock valued at \$1.2 million.

The Satellite Networks Business is a significant DAMA-based VSAT supplier with additional product lines addressing the non-DAMA VSAT market, the gateway market, the asset tracking and meter reading market, and the telemetry and antenna systems market. In addition, the Satellite Networks Business brings us a larger and more experienced commercial sales force, a significant customer base, additional research

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and development, and engineering capabilities. We have moved the headquarters of our commercial business to the Satellite Networks Business facilities in Norcross, Georgia.

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The acquisition has been accounted for by the purchase method of accounting as defined in APB Opinion No. 16. The purchase price of the acquisition has been allocated to the estimated 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. This charge 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	\$ 17,870,000
Inventory	7,515,000
Property, plant and equipment	9,540,000
Intangible assets	24,996,000
Acquired in-process research and development	2,334,000
Other assets	326,000
Liabilities	(4,252,000)
Total	\$ 58,329,000

The following unaudited pro forma condensed combined financial information gives effect to the acquisition as of April 1, 1999. Because the Satellite Networks Business had been operated as a division of Scientific-Atlanta, its results may not reflect those that would have resulted had it operated as an independent entity or as a part of ViaSat. The pro forma information for the three and nine month periods ended December 31, 1999 and 2000 does not reflect the effects of anticipated post-acquisition cost savings or restructuring efficiencies.

The pro forma condensed combined financial information combines information from ViaSat's unaudited income statement for the three and nine month periods ended December 31, 1999 and 2000 with the Satellite Networks Business' unaudited income statement for the three and nine month periods ended December 31, 1999 and 2000.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1999	2000	1999	2000
Revenues	\$ 39,561,000	\$ 43,093,000	\$ 116,052,000	\$ 126,832,000
Net income	798,000	2,715,000	2,620,000	7,559,000
Earnings per share				
Basic	.04	.12	.13	.36
Diluted	.04	.12	.12	.34
Weighted average number of shares*				
Basic	21,451,082	21,836,429	20,928,994	21,187,133
Diluted	21,638,060	22,875,989	21,722,004	22,416,498

*The weighted average number of shares includes 5,224,150 shares related to 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 Revenue Recognition

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

Contract costs with the U.S. Government and its prime contractors, including indirect costs, are subject to audit and negotiations with U.S. 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.

NOTE 4 Earnings Per Share

Common stock equivalents of 1,186,978 and 1,039,559 shares for the three months ended December 31, 1999 and 2000, respectively, and 793,010 and 1,229,366 shares for the nine months ended December 31, 1999 and 2000 respectively, were used to calculate diluted earnings per share. Antidilutive shares excluded from the calculation were zero and 1,933,405 shares for the three months ended December 31, 1999 and 2000, respectively. Antidilutive shares excluded from the calculation were 21,040 and 864,943 shares for the nine months ended December 31, 1999 and 2000, respectively. Common stock equivalents are primarily comprised of options granted under our stock option plans.

NOTE 5 Composition of Certain Balance Sheet Captions

	<u>March 31,</u> <u>2000</u>	<u>December 31,</u> <u>2000</u>
		(Unaudited)
Accounts receivable:		
Billed	\$ 13,031,000	\$ 37,898,000
Unbilled	13,237,000	21,551,000
	<u>\$ 26,268,000</u>	<u>\$ 59,449,000</u>
Inventory:		
Raw materials	\$ 2,263,000	\$ 14,190,000
Work in process	484,000	4,368,000
Finished goods	375,000	3,220,000
	<u>\$ 3,122,000</u>	<u>\$ 21,778,000</u>
Intangible assets:		
Technology		\$ 9,754,000
Contracts and relationships		9,650,000
Acquired work force		5,592,000
Accumulated amortization		(2,342,000)
		<u>\$ 22,654,000</u>
Accrued liabilities:		
Current portion of warranty reserve	\$ 799,000	\$ 1,405,000
Accrued vacation	1,188,000	2,195,000
Accrued bonus	1,004,000	1,544,000
Accrued 401(k) matching contribution	917,000	1,419,000
Collections in excess of revenues	694,000	5,343,000
Other	399,000	1,309,000
	<u>\$ 5,001,000</u>	<u>\$ 13,215,000</u>

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

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NOTE 6 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. The following table summarizes our assets related to ORBCOMM at December 31, 2000.

Accounts receivable-billed	\$4,611,000
Accounts receivable-unbilled	136,000
Inventory	130,000
Total	\$4,877,000

We cannot make assurances that the assets listed above will be fully recovered. If ORBCOMM is unable to successfully restructure its operations it could cause ViaSat to incur losses which could harm our business; however, we have not made any adjustments to the recorded amount as it is not possible at this time to reasonably estimate or determine what loss, if any, will be incurred.

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

We may be involved in legal proceedings arising in the ordinary course of business, none of which is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

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NOTE 7 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 (formerly Electronic) Systems Group which operates primarily in the defense market.

The following table summarizes revenues and operating profits by operating segment for the three and nine month periods ended December 31, 2000. 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.

<u>Three Months Ended</u>	<u>Nine Months Ended</u>
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December 31, 2000

	(unaudited)	
Revenues		
ViaSat Satellite Networks	\$ 26,114,000	\$ 71,568,000
Communication Systems Group	16,979,000	47,881,000
Total revenues	43,093,000	119,449,000
Operating profits		
ViaSat Satellite Networks	2,445,000	6,034,000
Communication Systems Group	2,156,000	8,578,000
Segment operating profit before corporate and other	4,601,000	14,612,000
Corporate	(238,000)	(994,000)
Amortization of intangibles	(967,000)	(2,342,000)
Acquired in-process research and development	(141,000)	(2,334,000)
Total operating profits	\$ 3,255,000	\$ 8,942,000

Revenue information by geographic area for the three and nine months ended December 31, 2000 is as follows:

	Three Months ended	Nine Months Ended
	December 31, 2000	
	(unaudited)	
North America	\$ 34,542,000	\$ 96,065,000
Europe	3,673,000	10,860,000
Asia Pacific	4,447,000	10,977,000
Latin America	431,000	1,547,000
	\$ 43,093,000	\$ 119,449,000

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 \$39,000 at December 31, 2000.

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

When used in this discussion, the words believes, anticipates, expects, intends and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. We undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made under Item 1. Business Factors That May Affect Future Performance in our Annual Report on Form 10-K for our fiscal year ended March 31, 2000, filed with the Securities and Exchange Commission.

Results of Operations

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1999	2000	1999	2000
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	58.2	68.4	57.1	67.6
Gross profit	41.8	31.6	42.9	32.4
Operating expenses:				
Selling, general and administrative	15.8	17.8	15.8	16.8
Independent research and development	11.6	3.7	11.5	4.1
Acquired in-process research and development		.3		2.0
Amortization of intangible assets		2.2		2.0
Income from operations	14.5	7.6	15.6	7.5
Income before income taxes	15.9	8.1	16.8	8.5
Net income	11.1	6.3	10.8	5.9

Three Months Ended December 31, 1999 vs. Three Months Ended December 31, 2000

Revenues. Revenues increased 138.9% from \$18.0 million for the three months ended December 31, 1999 to \$43.1 million for the three months ended December 31, 2000. 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 80.5% from \$7.5 million (41.8% of revenues) for the three months ended December 31, 1999 to \$13.6 million (31.6% of revenues) for the three months ended December 31, 2000. This increase 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 high margin defense products and increased volumes of lower margin development projects.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased 169.8% from \$2.8 million (15.8% of revenues) for the three months ended December 31, 1999 to \$7.7 million (17.8% of revenues) for the three months ended December 31, 2000. The increase was primarily due to the additional costs from the Satellite Networks Business, transition costs related to the

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acquisition and efforts related to pursuing broadband business. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Certain of these expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

Independent Research and Development. Independent research and development (IR&D) expenses decreased 23.9% from \$2.1 million (11.6% of revenues) for the three months ended December 31, 1999, to \$1.6 million (3.7% of revenues) for the three months ended December 31, 2000. This decrease resulted from a higher level of funded development programs.

Amortization of Intangible Assets. Intangible assets are being amortized over useful lives ranging from three to nine years. For the three months ended December 31, 2000, amortization expense was \$967,000.

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Interest Expense. Interest expense decreased from \$37,000 for the three months ended December 31, 1999 to \$15,000 for the three months ended December 31, 2000. Interest expense relates to loans for the purchase of capital equipment, which are generally three year variable rate term loans, and to short-term borrowings under our line of credit to cover working capital requirements. Total outstanding equipment loans were \$1.5 million at December 31, 1999, and \$504,000 at December 31, 2000. There were no outstanding borrowings under our line of credit as of December 31, 1999 or 2000.

Interest Income. Interest income increased from \$283,000 for the three months ended December 31, 1999 to \$304,000 for the three months ended December 31, 2000. This increase resulted from increased invested balances. Interest income relates largely to interest earned on short-term deposits of cash.

Provision for Income Taxes. Our effective income tax rate decreased from 29.9% for the three months ended December 31, 1999 to 22.4% for the three months December 31, 2000. The difference relates primarily to increases in estimates of prior period research and development tax credits.

Nine Months Ended December 31, 1999 vs. Nine Months Ended December 31, 2000

Revenues. Revenues increased 129.3% from \$52.1 million for the nine months ended December 31, 1999 to \$119.4 million for the nine months ended December 31, 2000. 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 simulator systems and various production contracts.

Gross Profit. Gross profit increased 73.0% from \$22.3 million (42.9% of revenues) for the nine months ended December 31, 1999 to \$38.6 million (32.4% of revenues) for the nine months ended December 31, 2000. This increase 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.

Selling, General and Administrative Expenses. SG&A expenses increased 143.9% from \$8.2 million (15.8% of revenues) for the nine months ended December 31, 1999 to \$20.1 million (16.8% of revenues) for the nine months ended December 31, 2000. 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 bid and proposal efforts for defense programs, and additional administrative staffing to support our growth.

Independent Research and Development. IR&D expenses decreased 17.0% from \$6.0 million (11.5% of revenues) for the nine months ended December 31, 1999 to \$5.0 million (4.1% of revenues) for the nine months ended December 31, 2000. This decrease resulted from the award of funded development contracts related to both our defense and commercial products.

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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 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

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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. Intangible assets are being amortized over useful lives ranging from three to nine years. For the nine months ended December 31, 2000, amortization expense was \$2.3 million for the period from April 25, 2000 to December 31, 2000.

Interest Expense. Interest expense decreased from \$126,000 for the nine months ended December 31, 1999 to \$80,000 for the nine months ended December 31, 2000. Total outstanding equipment loans were \$1.5 million at December 31, 1999, and \$504,000 at December 31, 2000. There were no outstanding borrowings under our line of credit as of December 31, 1999 or 2000.

Interest Income. Interest income increased from \$762,000 for the nine months ended December 31, 1999 to \$1.3 million for the nine months ended December 31, 2000. This increase resulted from higher average invested cash balances.

Provision for Income Taxes. Our effective income tax rate decreased from 36.0% for the nine months ended December 31, 1999 to 30.0% for the nine months ended December 31, 2000. The decrease relates primarily to increases in estimates of prior period research and development tax credits.

Backlog

At December 31, 2000 we had firm backlog of \$221.7 million of which \$207.9 million was funded. The firm backlog of \$221.7 million does not include contract options of \$58.7 million. Of the \$221.7 million in firm backlog, approximately \$35.9 million is expected to be delivered in the fiscal year ending March 31, 2001, and the balance is expected to be delivered in the fiscal year ending March 31, 2002 and thereafter.

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At March 31, 2000 we had firm backlog of \$88.2 million, of which \$58.6 million was funded, not including options of \$53.3 million. We include in our backlog only those orders for which we have accepted purchase orders. However, backlog is not necessarily indicative of future sales. A majority of our government backlog scheduled for delivery can be terminated at the convenience of the government 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 set forth product specifications that would require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related purchase order.

The backlog amounts as presented are comprised of funded and unfunded components. Funded backlog represents the sum of contract amounts for which funds have been specifically obligated by customers to contracts. Unfunded backlog represents future amounts that customers may obligate over the specified contract performance periods. Our government customers allocate funds for expenditures on long-term contracts on a periodic basis. Our ability to realize revenues from government contracts in backlog is dependent upon adequate funding for such contracts. Although funding of government 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. Cash provided by operating activities for the nine months ended December 31, 1999 was \$1.7 million and cash used in operating activities for the nine months ended December 31, 2000 was \$9.4 million. Increases in accounts receivable and inventories due to the new business were offset by increases in accounts payable.

Cash provided by investing activities for the nine months ended December 31, 1999 was \$9.3 million and cash used in investing activities for the nine months ended December 31, 2000 was \$64.7 million. During the nine months ended December 31, 2000, we acquired the Satellite Networks Business for cash of \$57.1 million plus warrants to purchase 100,000 shares of common stock valued at \$1.2 million. In addition, we acquired \$3.0 million in equipment in the nine months ended December 31, 2000 compared to \$2.9 million of equipment during the nine months

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ended December 31, 1999, excluding the acquisition of the Satellite Networks Business.

Cash used in financing activities for the nine months ended December 31, 1999 was \$399,000 and cash provided by financing activities for the nine months ended December 31, 2000 was \$74.4 million. This increase was primarily the result of completing a secondary public stock offering for \$73.1 million.

At December 31, 2000, we had \$24.5 million in cash, cash equivalents and short-term investments, \$88.0 million in working capital and \$504,000 in equipment financing. We had no outstanding borrowings under our line of credit at December 31, 2000.

We are in the process of negotiating the terms of the \$25.0 million revolving line of credit facility with a bank.

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.

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Our future capital requirements will depend upon many factors, including the progress of our research and development efforts, expansion of our marketing efforts, and the nature and timing of orders. We believe that our current cash balances and net cash expected to be provided by operating activities will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. We invest our cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

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SIGNATURES

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

VIASAT, INC.

October 12, 2001

/s/ MARK D. DANKBERG

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

/s/ RICHARD A. BALDRIDGE

Richard A. Baldrige
Executive Vice President, Chief Financial

