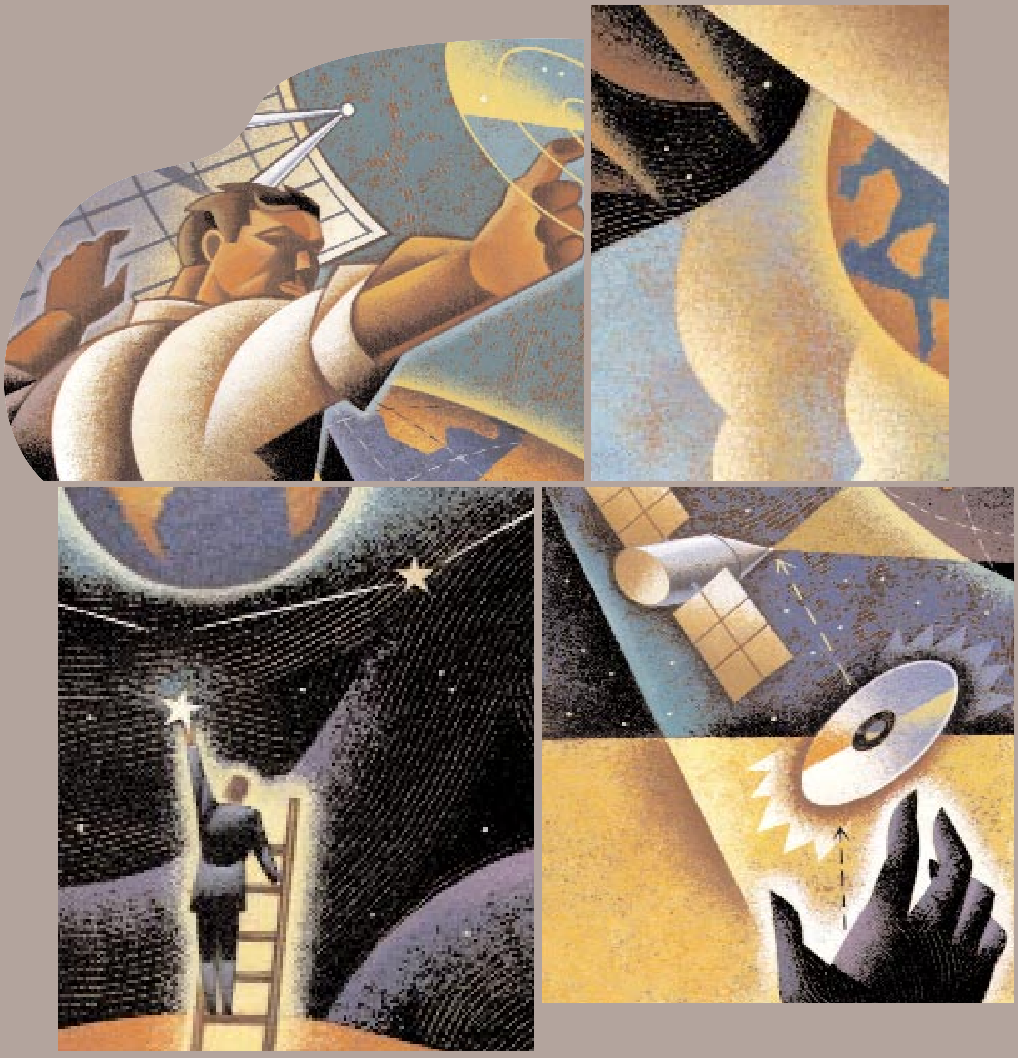
ViaSat 1999 Annual Report



EXPANDING TECHNOLOGY IN COMMUNICATIONS

Founded in 1986, ViaSat (Nasdaq-Amex: VSAT) is a digital communications company specializing in satellite and other wireless networking technologies. Products include satellite networks for government and commercial markets, terminals for battlefield data collection and distribution, data encryption devices, wireless data collection and monitoring systems, communication test and training simulators, and other networking hardware and software that make it easier to use tactical communication channels. During the past year we were recognized for our record of superior growth and profitability by being named as one of Forbes' "200 Best Small Companies" and as one of the Business Week "100 Best Small Corporations."

Dear Shareholders I'm pleased to report that fiscal 1999 was another positive year for ViaSat in several ways. We achieved record financial results, added several key people to our management team, and accomplished a number of objectives that we believe help position us for continued growth.

Sales for the year ended March 31, 1999 reached $71.5 million, a record for the company, and an increase of 11% over the previous year. Net income increased to a record level, growing even faster than revenue, with a 19% increase over fiscal 1998 to $6.3 million. Earnings per diluted share also grew by 19% over the prior year to a record 77¢.

We accomplished a number of important business and program objectives during the year, as well:

- Achieved higher transmission speeds and other features in our embedded UHF DAMA modem—received a $3 million contract from Raytheon for a second generation of the AN/PSC-5 "Spitfire" UHF Demand Assigned Multiple Access (DAMA) modem. The initial modem has been one of our most successful products, with over 5,000 delivered to date.
- Reinforced our UHF network control position and expanding our international UHF business—won a $5 million order from Elmer/Marconi for UHF satellite network control and DAMA modems for the Italian Sicral satellite.
- Expanded the capability of DoD's global UHF network and increased the number of potential subscriber terminals—delivered and integrated network control software for 25 kHz bandwidth channels into the UHF DAMA network control systems under a US Air Force contract.
- Streamlined contracting for domestic and international orders—executed Indefinite Delivery/Indefinite Quantity (IDIQ) ordering agreements for UHF satellite products and services with potential contract values of $40 million.
- Progressed in effort to win designation as a certified manufacturer in the international airborne data link program known as MIDS LVT—met scheduled commitments under a $5 million production readiness agreement with the US Navy for MIDS LVTs. ViaSat leads a team with Harris Corporation and Northrop Grumman's Xetron subsidiary. A competitive procurement for production terminals is anticipated to be decided during calendar 2000.
- Established a StarWire Network Operations Center—focused on bandwidth-on-demand IP (Internet Protocol) broadband satellite service. We also commenced proof-of-concept services for some initial customers in the US.
- Continued progress in development of Paired Carrier Multiple Access (PCMA)—conducted public over-the-air demonstrations of PCMA narrowband technology at the Satellite 99 industry conference, and initiated development of a broadband PCMA product (up to 2 Mbps). We believe PCMA can be a significant discriminator for broadband satellite networking.

Of course, continued growth depends completely on the dedication and talents of our work force. During the past year we added a number of key leaders, including:

- Admiral William A. Owens (USN ret) was elected to our board of directors.
- Tom Wittenschlaeger joined as Vice President/General Manager of our StarWire commercial satellite networks products.
- Steve Cable became Vice President of Strategic Business Development.
- Rick Baldridge joined ViaSat as Vice President and Chief Financial Officer.

We enter our Fiscal Year 2000 with a clear set of business priorities:

- Focus on new business awards for both defense and commercial contracts.
- Ignite growth in our commercial satellite networks business.
- Successful completion of our MIDS Production Readiness Program and positioning for follow-on production contracts.
- Strategic positioning for DoD's anticipated advanced narrowband architecture which is anticipated to reshape and eventually replace the existing UHF satcom system.

SATELLITE COMMUNICATIONS INDUSTRY OUTLOOK This is a time of great change in satellite communications. The past year has seen dramatic events, both positive and negative. These range from a disappointing start for one of the Mobile Satellite Services systems to multi-billion dollar commitments to K_a band broadband systems. While some would paint the entire satellite industry with a single broad brush, the reality is that satcom represents the diverse terrestrial telecommunications industry in microcosm.

Satellite networking is simply becoming increasingly segmented. Like the myriad forms of wired and wireless earthbound networks, satellite systems are differentiated from competing terrestrial and celestial alternatives in many ways. Satellite systems manifest a startling breadth of technical approaches including orbit selections, launch systems, operating frequencies, network architectures, antenna steering, and space/ground switching. New value-added target markets splinter into one-way broadcasting, narrow-casting, or data-casting; two-way transaction processing; mobile narrowband voice and data; fixed site rural telephony; two-way broadband customer premises to network gateway last-mile access; residential and SO/HO last mile broadband ISP access; as well as switched and routed end-to-end customer premises enterprise broadband networks. Systems are further segmented by geography (global vs. regional vs. regional spot-beam), value chain placement (transmission vs. content vs. content aggregation), service pricing options, financing strategies, and distribution and branding. And, even with these new value-added services, traditional wholesale Fixed Satellite Services transponder leasing is still evolving and growing.

Given such diversity, it's inevitable that some manufacturers and operators face tough sledding, while others enjoy smooth sailing. It's very unlikely that a single system, business proposition, or technology will dominate such a broad spectrum of markets. Though we cannot guarantee a secret recipe for success, we believe a dynamic, tumultuous marketplace favors nimble, technology-oriented companies. We can't always avoid false-starts — but we can react quickly. Our basic strategy is to aggressively pursue unique technologies that enhance attractive, growing, market segments. Simultaneously, we're working to establish strategic relationships to exploit those technology advantages. Times of great change bring great opportunities, and we are focused on those opportunities.

In closing, I'd like to once again extend my sincere thanks and gratitude to our employees for the commitment and dedication that has sustained our growth. And, all of us at ViaSat express our deep appreciation to our customers and shareholders for providing the opportunity to earn their confidence and support.

Mark Dankberg

Mark Dankberg
Chairman, CEO & President

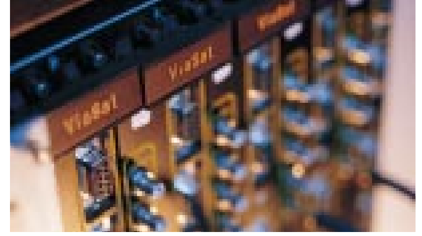
UHF

ViaSat is a leader in supplying Ultra High Frequency, Demand Assigned Multiple Access (UHF DAMA) satellite networking products to the US Government. Even with 10 years of success, our largest product group is on a path to new and better technologies ahead.

"Care in the Air", under the Air Force 311 Human Systems Wing, conducted its first operations this past year, and exceeded expectations. Medical evacuation teams aboard an Air Force C-141 jet, flying high over the Pacific towards Hawaii, sent e-mail and data files to medical teams on the ground. With no time to waste and accuracy imperative, ViaSat eMail networking software and advanced data controllers routed critical medical information from the plane to the ground and onto locations on the Internet, using UHF Satcom channels, often times a noise-prone communications medium.

The past fiscal year marked progress in several areas of our largest product group, UHF DAMA. As we entered the last year of production for the first generation PSC-5 Manpack modem, we began funded engineering for the second generation, which we expect to enter limited production in the year ahead. We also achieved our first sales of a second generation of our MD-1324 modem, which includes advances enabling higher data rates and a built in UHF receiver, providing significant cost savings to our customers. And we completed and fielded a significant upgrade to the DoD's network control system, resulting in the first fully integrated 5 and 25 kHz NCS system.

Expansion into international markets is part of our strategy for growth in UHF DAMA. A contract signed with the Italian Ministry of Defense last year was an important step forward in this strategy. This relationship with Elmer, a Division of Marconi Space, is expected to produce significant revenue for several years.



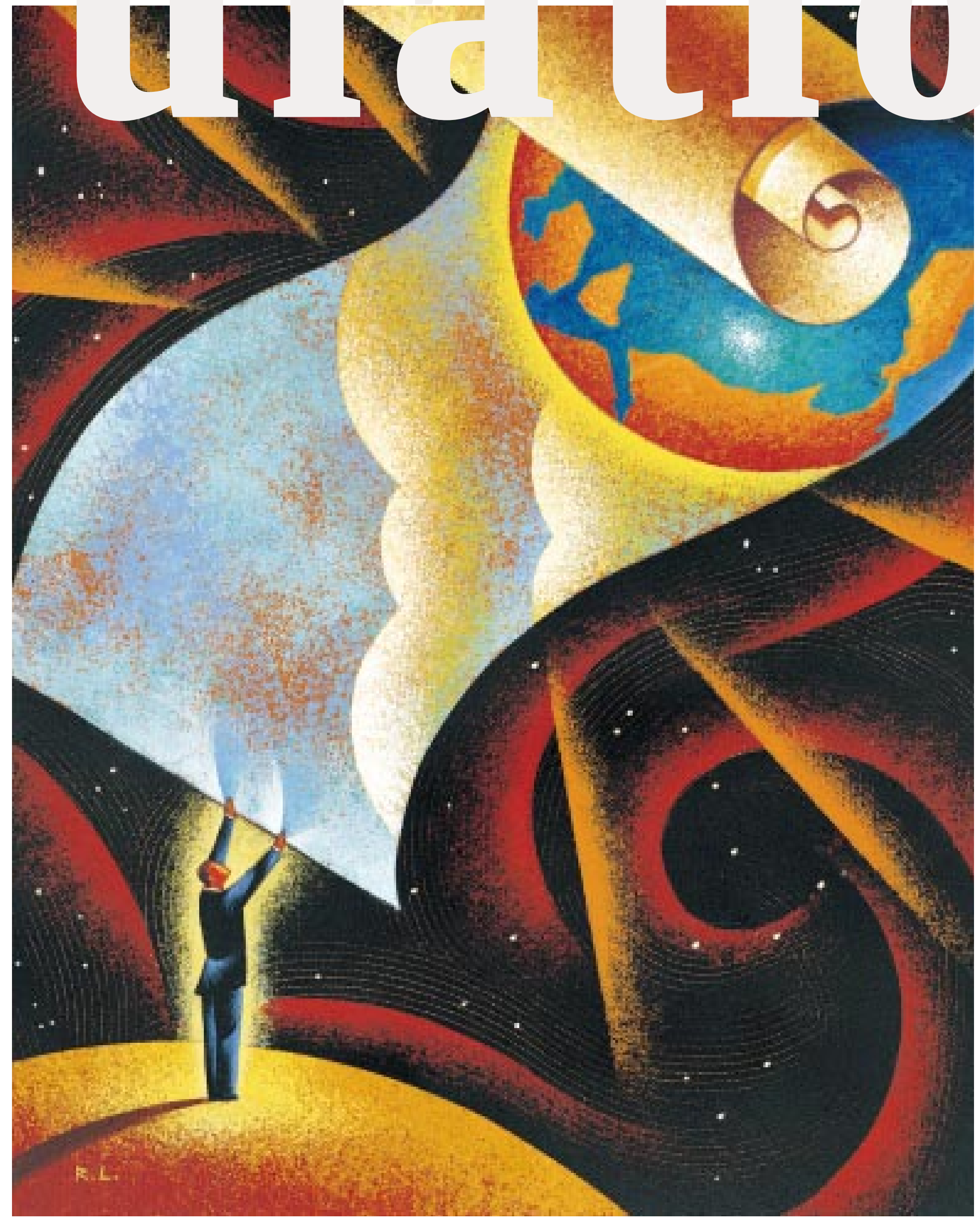
Our Signal Simulation & Test systems create a controlled, simulated air space, filled with competing radio frequency signals, just as an aircraft would experience in battle. The time and dollar savings for our customers are significant.

Simulation

In this simulated airspace, engineers can test concepts, evaluate performance and conduct training involving communication, navigation and identification electronics without the need to send planes into the air for actual flight testing. Simulation also gives users the advantage of repeatable testing, without the variation in other conditions found in real flight testing.

The data collected during these tests gains importance as budgets and expenditures are increasingly scrutinized. More solid test data gives project teams more ammunition in their efforts to show the value of spending government dollars on new weapons, navigation, and other avionics systems.

The modular system is adaptable to fit a range of applications. Future markets may lie in two different directions. The first is adapting our simulators to conduct operator training for advanced weapon and communication systems—again avoiding expensive hours in the air. Another new application involves generating signals that could deceive enemy communications intelligence.



The Air Force needed a simulator (also called a "stimulator") to test airborne communication and navigation. But while several were developed during the early and mid 90's none met all the Air Force requirements.

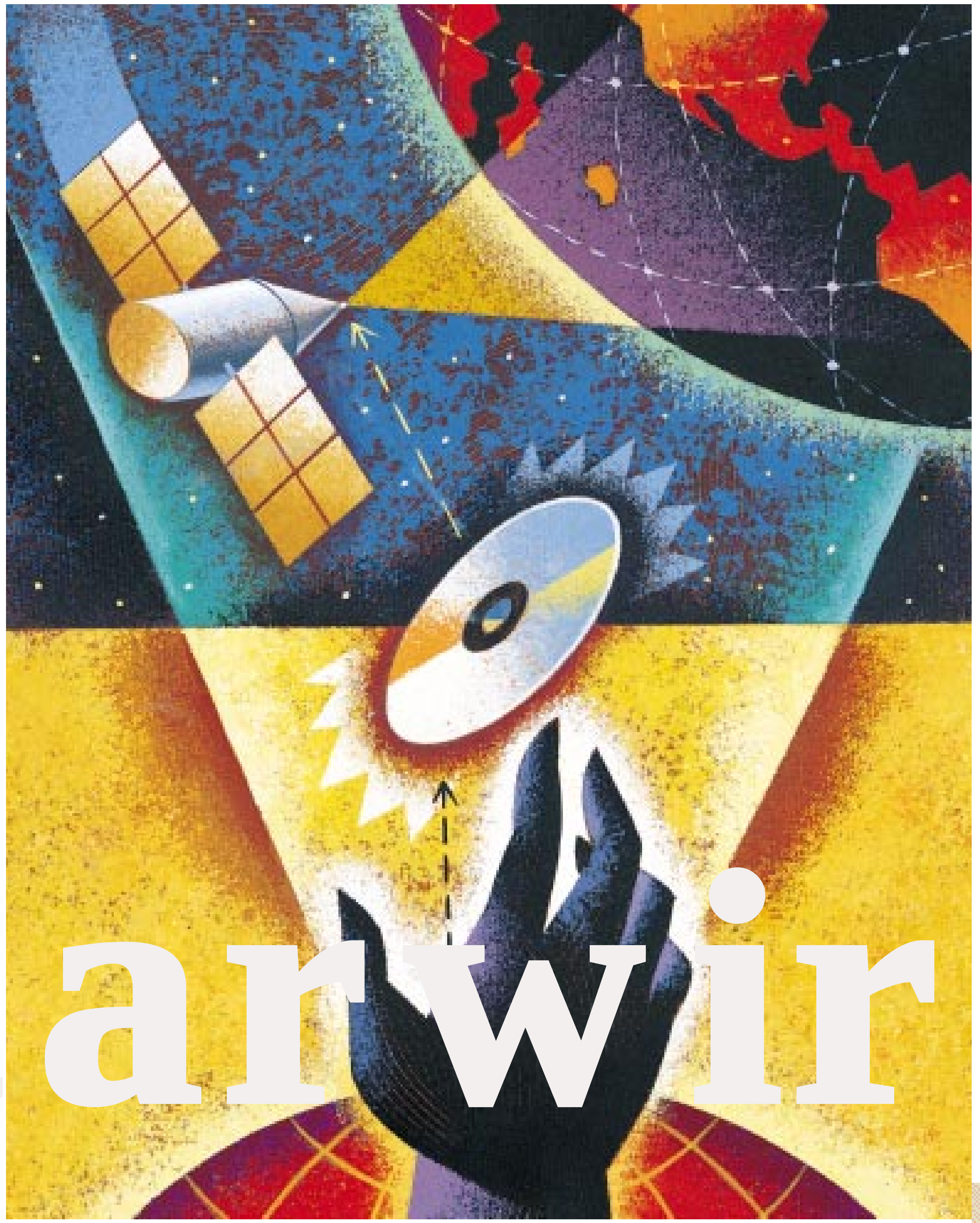
In 1993, parallel Air Force and Navy efforts were brought together in a project called the "Joint Communications, Navigation, Identification Stimulator" or CNIS. In January, 1997 ViaSat became a project team member under a three-year, $20.7 million contract. Now a March, 1999 Air Force briefing to the Association of Old Crows predicts a successful end to the project, based on both technology and team work.

The briefing summarizes, "We have weathered quite a few discussions and issues, and have established a process and team that is responsive to technical requirements, schedules, and customers."

Starwire/PCMA

Think of Wam!Net as a digital messenger service. What used to be rolled up or boxed and carried as hard copies, now is composed of digital bits of information. Photos, video, audio, other multimedia, or data files can travel over high bandwidth connections in minutes rather than hours or overnight. For most major cities wire or fiber connections provide the bandwidth needed. But what about smaller cities, or even more rural locations?

StarWire is providing Wam!Net with a pilot test satellite extension of its wired network, linking cities that might cost one and a-half to three times as much to reach with terrestrial connections. It does this by setting up high-speed connections on-demand, then freeing the satellite to serve others when the connection is no longer needed.

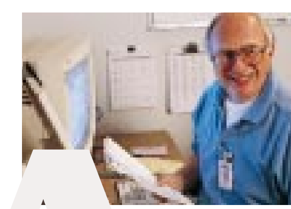


Small satellite terminal sales to-date are dominated by simple Point of Sale (POS), transaction-oriented networks.

Now broadband, two way connections for high speed data, voice, and multimedia services are in demand, where it's important to use satellite resources economically. This market is forecast as the third highest growth sector in satellite communications behind Little LEO and mobile voice services during the next four years, growing 164%, to $1.02 billion in annual sales.* StarWire has focused more tightly on this new marketplace during the past year.

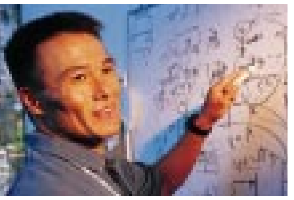
Integrated Internet Protocol (IP) within StarWire DAMA terminals matches the trend of enterprise networks moving to IP for all networking, not just Internet access. The first public over-the-satellite demonstrations of our patented Paired Carrier Multiple Access (PCMA) marked another milestone towards the imminent integration of this bandwidth-saving technology into our terminals. We also began shipping our new lower cost Calypso terminal. In addition, we inaugurated our own turnkey Network Operations Center that makes it easier for new satellite customers to get on the air.

*consensus estimate from State of the Space Industry 1999, published by Space Publications.



Using geostationary satellites already in place, StarWire provides broadband managed network service providers the opportunity to serve new geographic markets. StarWire enables broadband service providers to augment their terrestrial services and literally reach out to a new set of customers.

Along with our partners Northrop Grumman Corp's. Xetron subsidiary and Harris Corp., we cleared additional hurdles this past year in positioning ourselves to capture a portion of the Multifunctional Information Distribution System (MIDS) market. Our team's approach inserts updated, more reliable technology while preserving the ability to interchange modules with the original design.



Two weeks turned an empty conference room into a stage for the ViaSat team to showcase its MIDS LVT terminal this past spring. Engineered to be smaller and less costly than previous Link 16 terminals, an interactive demonstration showed the new terminal's high performance in gathering and displaying simulated battlefield information.

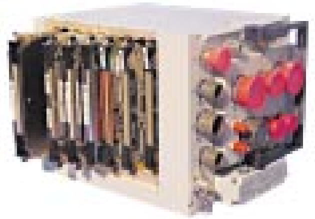
The MIDS terminals are a line-of-sight communications device planned for worldwide use by US and allied forces. Based on a standard called "Link-16," they communicate voice and data among ships, airplanes, vehicles and fixed locations giving what those in combat call an integrated view of the battlefield. Industry figures put the total number of Link 16 terminals currently in use at 3,500. We estimate the need for about 2,000 domestic and 2,000 international installations of the MIDS version of Link 16 in the next decade. Work continues toward being one of two suppliers chosen (from three contenders) near the end of Fiscal 2000.

Link-16

As part of the Air Force Link-16 Enhanced Throughput (LET) program, ViaSat last year successfully demonstrated that data rates over Link-16 channels can be increased by as much as 10 times.

"This event represents a milestone in enhancing the use of tactical data links for the warfighter," said Maj. James Eldridge of the Link-16 System Integration Office. "The enhanced capability will allow the warfighter to train as they fight and receive pre- and post-attack imagery in the cockpit."

New applications for the Link-16 protocol such as video transmission, IP data communications, and advanced weapon systems, all require much faster speeds than are available today. In addition, Link-16 transmissions are limited by the Federal Aviation Administration because of possible interference with air traffic control frequencies, so higher data rates can reduce transmission times and decrease possible conflicts.

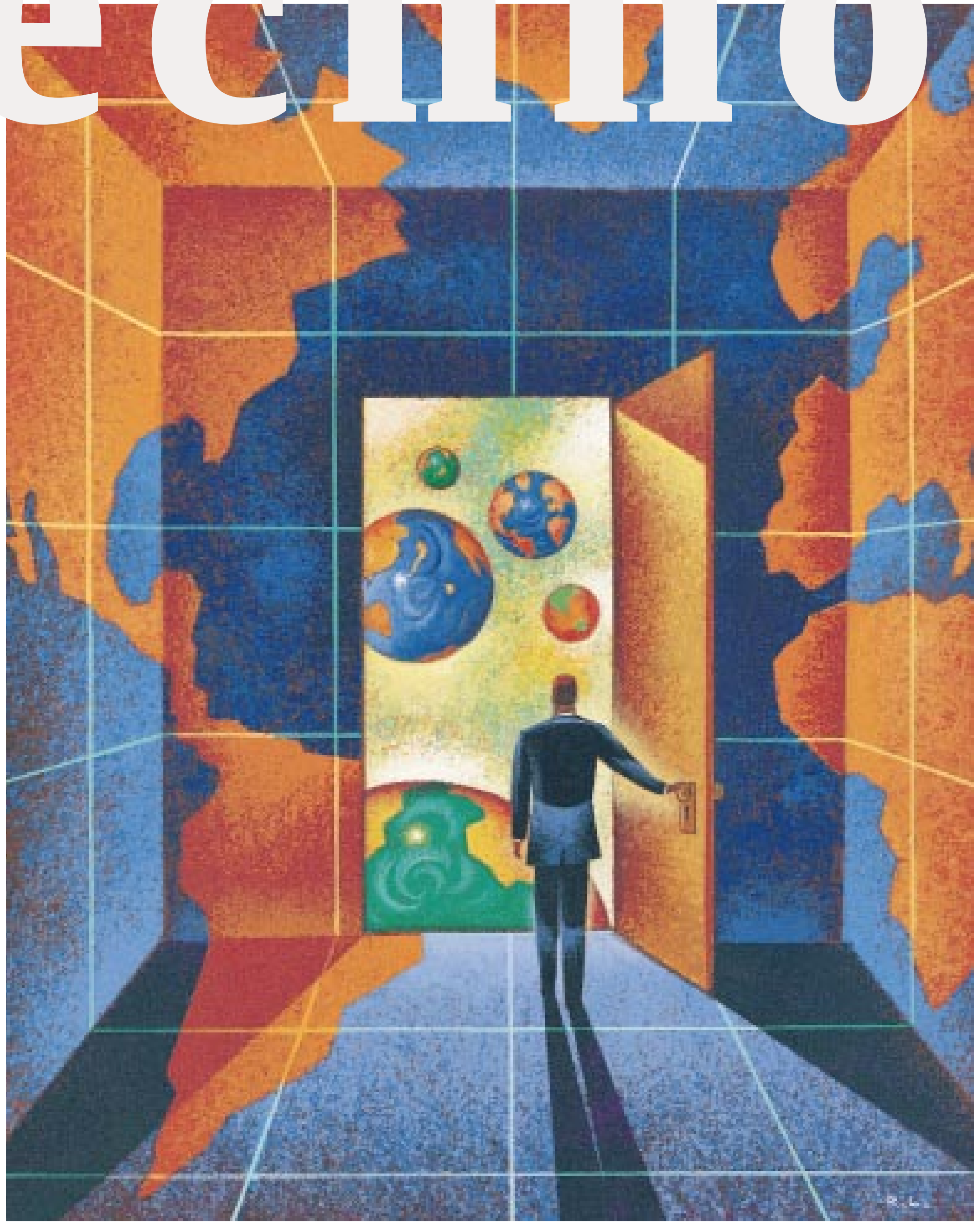


Technology

Research and Development, especially within our Advanced Programs group, looks for innovative new ideas and directions for ViaSat. The long-term goal is to cultivate these small funded R&D projects into big contributors to the bottom line.

Student members of the Society of Automotive Engineers (SAE) at Rensselaer Polytechnic Institute (RPI) were challenged to design and manufacture a formula style race car. At an annual competition in Pontiac, Michigan, leading industry professionals would evaluate the car on the basis of engineering design, solo performance trials and high performance track endurance.

In 1999, the RPI team decided an onboard telemetry system might give them an edge. But after some research and development, they feared they would be over budget and out of time. Enter ViaSat's MiniDAT wireless data acquisition terminal. From sensors measuring RPMs, temperatures, and suspension positions the MiniDAT collects and transmits data to a laptop base station, where National Instruments LabVIEW software processes it and provides feedback to tune the car into a more effective racing machine.



Always a ViaSat strength, we grew our technical staff by another 15% during Fiscal 99. To attract and feed the creativeness of this group, we continue to involve them in a blend of discretionary and funded research and development.

One steady source of new projects is the Department of Defense Small Business Innovation Research (SBIR) program. Featured in the national press this year as an SBIR success story, ViaSat has won 46 Phase I, 24 Phase II and 16 Phase III awards, at a value of $240 million and growing. Phase I awards are 70 to 100 thousand dollar grants to explore new technology. With success comes additional funding, and winners retain commercial rights to the technology they develop for seven years.

The ideas emerging from these projects take time to mature into significant contributors to company sales. Yet from one of these small beginnings we have grown our largest revenue producer, the UHF DAMA products group. So great potential is here, forming a key piece of our strategy for long-term growth at ViaSat.

Financial

Financial Contents

Selected Financial Data

The following data has been derived from the Company's audited financial statements. The balance sheet at March 31, 1999 and 1998 and the related statements of income, of cash flows and of stockholders' equity of the Company for the three years ended March 31, 1999 and notes thereto appear elsewhere herein. The data should be read in conjunction with such financial statements and other financial information appearing elsewhere herein. All amounts shown are in thousands, except per share data.

	Years Ended March 31				
	1999	1998	1997	1996	1995
Statement of Income Data:					
Revenues	$ 71,509	$ 64,197	$ 47,715	$ 29,017	$ 22,341
Cost of revenues	44,182	40,899	33,102	20,983	16,855
Gross profit	27,327	23,298	14,613	8,034	5,486
Operating expenses:					
Selling, general and administrative	10,093	7,862	4,752	3,400	2,416
Independent research and development	7,639	7,631	5,087	2,820	788
Income from operations	9,595	7,805	4,774	1,814	2,282
Net interest income (expense)	584	586	100	(231)	(87)
Income before income taxes	10,179	8,391	4,874	1,583	2,195
Provision (benefit) for income taxes	3,883	3,104	1,702	(50)	888
Net income	$ 6,296	$ 5,287	$ 3,172	$ 1,633	$ 1,307
Basic net income per share	$ 0.79	$ 0.68	$ 0.66	$ 0.50	$ 0.42
Diluted net income per share	$ 0.77	$ 0.65	$ 0.48	$ 0.28	$ 0.24
Shares used in basic per share calculations	7,977	7,801	4,810	3,267	3,080
Shares used in diluted per share calculations	8,173	8,175	6,642	5,735	5,479

	March 31				
	1999	1998	1997	1996	1995
Balance Sheet Data:					
Cash and short-term investments	$ 20,793	$ 9,208	$ 12,673	$ 2,297	$ 2,731
Working capital	31,298	24,276	20,406	4,651	2,808
Total assets	50,016	42,793	35,674	13,262	9,377
Long-term debt, less current portion	1,243	1,544	1,428	1,747	1,220
Total stockholders' equity	36,847	29,610	23,619	5,217	3,413

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Historically, the Company's revenues have been principally derived from contracts with the Department of Defense. The Company's DOD revenues have continued to grow despite government budgetary constraints, and in addition, the Company's revenues from foreign military customers have also increased. Since 1992, the Company's total revenues have grown at a compounded annual growth rate of approximately 55.4%. DOD revenues amounted to $65.5 million, $58.2 million and $46.3 million for the fiscal years ended March 31, 1999, 1998 and 1997, respectively. Foreign military revenues were approximately 3.0% of total revenue in the fiscal year ended March 31, 1999. The Company has achieved this growth rate entirely through internal growth, and not through acquisitions.

The Company's products and services are provided primarily through three types of contracts: fixed-price, time-and-materials and cost-reimbursement contracts. Approximately 80.3%, 72.8% and 63.3% of the Company's total revenues for the fiscal years ended March 31, 1999, 1998 and 1997, respectively, were derived from fixed-price contracts which require the Company to provide products and services under a contract at a stipulated price. The Company derived approximately 2.6%, 4.6% and 6.0% of its revenues during such periods from time-and-materials contracts which reimburse the Company for the number of labor hours expended at an established hourly rate negotiated in the contract, plus the cost of materials utilized in providing such products or services. The remaining 17.1%, 22.6% and 30.7% of the Company's revenues for the fiscal years ended March 31, 1999, 1998 and 1997, respectively, were derived from cost-reimbursement contracts under which the Company is 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.

As of March 31, 1999, the Company had firm backlog of $44.9 million, of which $36.8 million was funded. Of the $44.9 million in firm backlog, approximately $36.3 million is expected to be delivered in the fiscal year ending March 31, 2000, approximately $3.4 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 years ending March 31, 2002 and thereafter. The Company received $43.7 million in awards during the year ended March 31, 1999. The Company's $44.9 million in firm backlog at March 31, 1999 excludes an additional $45.2 million of customer options. These options include the recently awarded $30.0 million Indefinite Delivery/Indefinite Quantity (IDIQ) UHF Satcom products contract from the U. S. Navy. As a result of the Federal Acquisition Streamlining Act of 1994, the trend in U.S. Government procurement is toward more off the shelf products and technology. More of the Company's backlog is expected to come from this type of order with shorter lead-times. Consequently the Company's backlog is expected to remain lower than historical trends would indicate.

Historically, a significant portion of the Company's revenue has been derived from 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 net revenues at such time. Revenues are recognized using the percentage of completion method on these long-term development contracts. Revenues for funded research and development during the fiscal years ended March 31, 1999, 1998 and 1997 were approximately $40.5 million, $25.6 million and $21.3 million, respectively.

Beginning in fiscal 1995, production contracts for delivery of previously developed equipment became a more significant percentage of total revenues. Production contracts amounted to approximately 35.4%, 52.6% and 35.3% of fiscal 1999, 1998 and 1997 total revenues, respectively.

The Company invests in independent research and development ("IR&D"), which is not directly funded by a third party. The Company expenses IR&D costs as they are incurred. IR&D expenses consist primarily of salaries and other personnel-related expenses, supplies and prototype materials related to research and development programs. IR&D expenses for governmental and commercial applications were minimal prior to fiscal 1995. In the fourth quarter of fiscal 1995, the Company began investing a significant amount of IR&D funds primarily in the development of satellite broadband services, telephony and other satellite DAMA products. The Company expended approximately 10.7%, 11.9% and 10.6% of total revenues in IR&D during the fiscal years ended March 31, 1999, 1998 and 1997, respectively. As a government contractor, the Company is able to recover a portion of its IR&D expenses pursuant to its government contracts.

Results of Operations

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

	Fiscal Years Ended March 31		
	1999	1998	1997
Revenues	100.0%	100.0%	100.0%
Cost of revenues	61.8	63.7	69.4
Gross profit	38.2	36.3	30.6
Operating expenses:			
Selling, general and administrative	14.1	12.2	10.0
Independent research and development	10.7	11.9	10.6
Income from operations	13.4	12.2	10.0
Income before income taxes	14.2	13.1	10.2
Net income	8.8	8.2	6.6

FISCAL YEAR ENDED MARCH 31, 1999 VS. FISCAL YEAR ENDED MARCH 31, 1998

Revenues The Company's revenues increased 11.4% from $64.2 million in fiscal 1998 to $71.5 million in fiscal 1999. This increase was primarily due to increases in revenues generated by government development and production programs. These increases were partially offset by a decrease in revenues related to commercial satellite networking systems.

Gross Profit Gross profit increased 17.3% from $23.3 million (36.3% of revenues) in fiscal 1998 to $27.3 million (38.2% of revenues) in fiscal 1999. The increase in gross profit was primarily the result of improvements on development programs due to increased recovery of IR&D expenditures and a better mix of higher margin products in the Company's sales for the year ended March 31, 1999 relative to the prior year. In addition, certain long-term contracts realized higher profits than initial estimates. The increases were offset in part by allowances for obsolete inventory.

Selling, General and Administrative Expenses Selling, general and administrative ("SG&A") expenses increased 28.4% from $7.9 million (12.2% of revenues) in fiscal 1998 to $10.1 million (14.1% of revenues) in fiscal 1999. The Company increased its business development and administrative staffing in support of both defense and commercial programs. Bid and proposal efforts increased from $1.5 million in fiscal 1998 to $1.8 million in fiscal 1999.

Independent Research and Development IR&D expenses remained at $7.6 million for both years, but decreased as a percentage of revenues from 11.9% of revenues in fiscal 1998 to 10.7% of revenues in fiscal 1999.

Interest Expense Interest expense increased 18.5% from $211,000 in fiscal 1998 to $250,000 in fiscal 1999. Interest expense relates to loans for the purchase of capital equipment and to short term borrowings under the Company's line of credit to cover working capital requirements. Total outstanding equipment loans were $2.6 million and $2.5 million at March 31, 1998 and 1999, respectively. There were no outstanding borrowings at the end of each fiscal year.

Interest Income Interest income increased 4.6% from $797,000 in fiscal 1998 to $834,000 in fiscal 1999. Interest income relates to interest earned on cash and short-term investments, as well as overdue government receivables where interest income increased from $17,000 in fiscal 1998 to $102,000 in fiscal 1999.

Provision (Benefit) for Income Taxes The Company's effective income tax rate increased from 37% in fiscal 1998 to 38% in fiscal 1999. The Company's effective income tax rate increased due to a limitation on qualified research and development expenditures used to calculate the Company's research and development tax credit.

FISCAL YEAR ENDED MARCH 31, 1998
VS. FISCAL YEAR ENDED MARCH 31, 1997

Revenues The Company's revenues increased 34.5% from $47.7 million in fiscal 1997 to $64.2 million in fiscal 1998. This increase was primarily due to increases in revenues generated by MD-1324s (UHF DAMA stand-alone modems), StarWire satellite networking systems and Joint Communication Simulator ("JCS") products. These increases were partially offset by a decrease in revenues derived from UHF DAMA network control stations and modems and Enhanced Manpack UHF Terminal ("EMUT") production.

Revenue from commercial customers grew from $1.5 million in fiscal 1997 to $5.9 million in fiscal 1998. Simulator product revenues grew from $4.8 million in fiscal 1997 to $11.5 million in fiscal 1998. UHF DAMA business area revenues grew from $32.8 million (68.8% of revenues) in fiscal 1997 to $35.0 million (54.5% of revenues) in fiscal 1998.

Gross Profit Gross profit increased 59.4% from $14.6 million (30.6% of revenues) in fiscal 1997 to $23.3 million (36.3% of revenues) in fiscal 1998. The increase in gross profit was primarily the result of a larger content of higher margin products in the Company's sales for the year ended March 31, 1998 relative to the same period of the prior year. In addition, certain long-term contracts realized higher profits than initial estimates.

Selling, General and Administrative Expenses SG&A expenses increased 65.5% from $4.8 million (10.0% of revenues) in fiscal 1997 to $7.9 million (12.2% of revenues) in fiscal 1998. The Company increased its business development and administrative staffing in support of both defense and commercial programs. Bid and proposal efforts increased from $1.2 million in fiscal 1997 to $1.5 million in fiscal 1998.

Independent Research and Development IR&D expenses increased 50.0% from $5.1 million (10.6% of revenues) in fiscal 1997 to $7.6 million (11.9% of revenues) in fiscal 1998. This increase resulted primarily from higher IR&D expenses related to the Company's StarWire DAMA product, which represented approximately 88% of total IR&D for fiscal 1998.

Interest Expense Interest expense decreased 16.9% from $254,000 in fiscal 1997 to $211,000 in fiscal 1998. Interest expense relates to loans for the purchase of capital equipment and to short-term borrowings under the Company's line of credit to cover working capital requirements. Total outstanding equipment loans were $2.6 million at March 31, 1997 and 1998. There were no outstanding borrowings under the Company's line of credit at the end of each fiscal year.

Interest Income Interest income increased 125.1% from $354,000 in fiscal 1997 to $797,000 in fiscal 1998. Interest income relates to interest earned on cash and short-term investments.

Provision (Benefit) for Income Taxes The Company's effective income tax rate increased from 35% in fiscal 1997 to 37% in fiscal 1998. The Company's effective income tax rate increased due to a limitation on qualified research and development expenditures used to calculate the Company's research and development tax credit.

Liquidity and Capital Resources

The Company has financed its operations to date primarily from cash flows from operations, bank line of credit financing, equity financing and loans for the purchase of capital equipment. Cash provided from operating activities for the fiscal year ended March 31, 1999 was $13.4 million, while cash used in operating activities for the fiscal year ended March 31, 1998 was $127,000. The relative increase in cash provided from operating activities for the year ended March 31, 1999 compared to the prior year was primarily due to an increase in net income and reductions in accounts receivable and inventory. The reduction in accounts receivable resulted from the collection of overdue receivables from the U.S. government at March 31, 1998, and from the timing of customer payments.

Cash used in investing activities for the fiscal years ended March 31, 1999 and 1998 was $11.4 million and $10.0 million, respectively. This increase in cash used was the result of purchasing $8.9 million in short-term, investment grade debt securities offset by lower purchases of property and equipment of $2.5 million, primarily consisting of test equipment and computers.

Cash provided by financing activities for the fiscal years ended March 31, 1999 and 1998 was $717,000 and $745,000, respectively.

At March 31, 1999, the Company had $6.0 million in cash and cash equivalents, $14.8 million in short-term investments, $31.3 million in working capital and $2.5 million in long-term debt which consists of equipment financing.

The equipment line consists of three loans, each of which limits borrowings to an 80.0% advance against the purchase price, net of sales tax, delivery and insurance. All three loans have been converted into fully amortizing loans which mature on September 15, 1999, 2000 and 2001, respectively. The Company's credit facilities, including the line of credit and future equipment financing, with Union Bank of California expired December 15, 1998.

The Company's future capital requirements, which management anticipates will not exceed the Company's $20.0 million cash balance over the next 12 months, will depend upon many factors, including the progress of the Company's research and development efforts, expansion of the Company's marketing efforts, and the nature and timing of commercial orders. The Company believes that its current cash and short-term investment balances and net cash expected to be provided by operating activities, will be sufficient to meet its working capital and capital expenditure requirements for at least the next 12 months. Management intends to invest the Company's cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

Year 2000 Issue

Many computer programs have been written using two digits rather than four to define the applicable year. This poses a problem when 1/1/00 could represent either year 2000 or year 1900. This, in turn, could result in system failures or miscalculations, and is generally referred to as the "Year 2000 issue." The Company's Year 2000 Plan includes four phases-evaluation, implementation of any required changes, testing and release/installation.

The Company has completed the evaluation and implementation of modifications for its business systems software and has completed testing of Company computers. Because the Company's fiscal year 2000 began April 1, 1999, applications which depend upon the fiscal year instead of the calendar year were required to be free of any Year 2000 issues by April 1,1999. All critical business systems dependent upon the fiscal year 2000 were compliant before April 1, 1999, and subsequently there have been no related issues. A few personal computers were found to need modifications and/or replacement to be Year 2000 compliant. All necessary modifications and replacements will be complete before January 1, 2000.

The Company has conducted evaluations of its products to determine if they are Year 2000 compliant. The Company does not believe that there are any material Year 2000 defects in its products. The Company has been asked by some customers to complete tests on products to determine if there are any Year 2000 issues. The products have passed these tests. The Company does not believe that any Year 2000 compliance issues related to its products will result in a material adverse effect on the financial position or results of operations of the Company.

The Company has completed extensive inquiries with significant suppliers to evaluate their Year 2000 status to determine the extent to which the Company is vulnerable to those third parties' failure to remedy their own Year 2000 issues. The Company does not believe that any Year 2000 compliance issues related to its suppliers will result in a material adverse effect on the financial position or results of operations of the Company.

The Company currently estimates that the total cost of implementing its Year 2000 Plan will be less than $100,000.

The Company anticipates that the Year 2000 issue will not have a material adverse effect on the financial position or results of operations of the Company. There can be no assurances, however, that the systems of other companies or the U.S. Government, on which the Company relies for supplies, cash payments, and future business, will be timely converted, or that a failure to convert by another company or the U.S. Government, would not have a material adverse effect on the financial position or results of operations of the Company. If third party service providers and vendors, due to the Year 2000 issue, fail to provide the Company with components or materials which are necessary to manufacture its products, with sufficient electrical power and other utilities to sustain its manufacturing process, or with adequate, reliable means of transporting its products to its customers worldwide, then any such failure could have a material adverse effect on the Company's ability to conduct business, as well as the Company's financial position and results of operations.

Because the Company has adopted a plan to address Year 2000 issues, it has not developed a comprehensive contingency plan for dealing with the most reasonably likely worst case scenario. However, if the Company identifies significant risks in the future or is unable to meet its anticipated schedule for completion of its Year 2000 compliance, the Company will develop contingency plans to the extent necessary at that time.

The foregoing discussion of Year 2000 issues contains forward-looking statements and should be read in conjunction with disclosures in the Company's filings with the Securities and Exchange Commission.

Quantitative and Qualitative Disclosures About Market Risk

The Company's market risks are not material and therefore are not disclosed.

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 1999 and 1998 is as follows (in thousands, except per share data):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1999				
Revenues	$ 16,304	$ 18,037	$ 18,928	$ 18,240
Gross profit	6,472	6,809	6,527	7,519
Income from operations	2,177	2,127	2,485	2,806
Net income	1,389	1,377	1,657	1,873
Basic net income per share	0.18	0.17	0.21	0.23
Diluted net income per share	0.17	0.17	0.20	0.23
1998				
Revenues	$ 14,476	$ 15,931	$ 15,991	$ 17,799
Gross profit	5,117	5,418	5,757	7,006
Income from operations	1,706	1,760	2,006	2,333
Net income	1,175	1,203	1,351	1,558
Basic net income per share	0.15	0.15	0.17	0.20
Diluted net income per share	0.15	0.15	0.16	0.19

Balance Sheet

	March 31 1999	March 31 1998
Assets		
Current assets:		
Cash and cash equivalents	$ 6,005,000	$ 3,290,000
Short-term investments	14,788,000	5,918,000
Accounts receivable	16,176,000	19,056,000
Inventory	2,525,000	4,687,000
Deferred income taxes	2,358,000	1,548,000
Other current assets	446,000	479,000
Total current assets	42,298,000	34,978,000
Property and equipment, net	6,630,000	6,986,000
Other assets	1,088,000	829,000
Total assets	$ 50,016,000	$ 42,793,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,754,000	$ 4,555,000
Accrued liabilities	6,027,000	5,087,000
Current portion of notes payable	1,219,000	1,060,000
Total current liabilities	11,000,000	10,702,000
Notes payable	1,243,000	1,544,000
Other liabilities	926,000	937,000
Total long-term liabilities	2,169,000	2,481,000
Commitments and contingencies (Notes 11 & 12)		
Stockholders' equity:		
Series A, convertible preferred stock, $.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding at March 31, 1999 and 1998, respectively		
Common stock, $.0001 par value, 25,000,000 shares authorized; 8,034,204 and 7,920,639 shares issued and outstanding at March 31, 1999 and 1998, respectively	81,000	81,000
Paid in capital	17,609,000	16,668,000
Retained earnings	19,157,000	12,861,000
Total stockholders' equity	36,847,000	29,610,000
Total liabilities and stockholders' equity	$ 50,016,000	$ 42,793,000

See accompanying notes to financial statements.

Statement of Income

	Year Ended March 31		
	1999	1998	1997
Revenues	$ 71,509,000	$ 64,197,000	$ 47,715,000
Cost of revenues	44,182,000	40,899,000	33,102,000
Gross profit	27,327,000	23,298,000	14,613,000
Operating expenses:			
Selling, general and administrative	10,093,000	7,862,000	4,752,000
Independent research and development	7,639,000	7,631,000	5,087,000
Income from operations	9,595,000	7,805,000	4,774,000
Other income (expense):			
Interest income	834,000	797,000	354,000
Interest expense	(250,000)	(211,000)	(254,000)
Income before income taxes	10,179,000	8,391,000	4,874,000
Provision for income taxes	3,883,000	3,104,000	1,702,000
Net income	$ 6,296,000	$ 5,287,000	$ 3,172,000
Basic net income per share	$ 0.79	$ 0.68	$ 0.66
Diluted net income per share	$ 0.77	$ 0.65	$ 0.48
Shares used in computing basic net income per share	7,976,848	7,801,212	4,810,472
Shares used in computing diluted net income per share	8,172,660	8,174,994	6,641,805

See accompanying notes to financial statements.

Statement of Cash Flows

	Year Ended March 31		
	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 6,296,000	$ 5,287,000	$ 3,172,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	2,853,000	2,182,000	1,389,000
Tax benefit from exercise of stock options	82,000	—	—
Deferred income taxes	(1,082,000)	(811,000)	(721,000)
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	2,880,000	(8,741,000)	(4,144,000)
Inventory	2,162,000	(209,000)	(3,255,000)
Other assets	46,000	1,078,000	(1,620,000)
Accounts payable	(801,000)	(289,000)	2,070,000
Accrued liabilities	940,000	1,318,000	1,612,000
Other liabilities	(11,000)	58,000	275,000
Net cash provided by (used in) operating activities	13,365,000	(127,000)	(1,222,000)
Cash flows from investing activities:			
Purchases of short-term investments, net	(8,870,000)	(5,918,000)	—
Purchases of property and equipment	(2,497,000)	(4,083,000)	(3,685,000)
Net cash used in investing activities	(11,367,000)	(10,001,000)	(3,685,000)
Cash flows from financing activities:			
Proceeds from short-term bank borrowings	—	—	2,600,000
Repayment of short-term bank borrowings	—	—	(2,600,000)
Proceeds from issuance of notes payable	1,092,000	1,448,000	889,000
Repayment of notes payable	(1,234,000)	(1,407,000)	(836,000)
Proceeds from issuance of common stock	859,000	704,000	15,230,000
Net cash provided by financing activities	717,000	745,000	15,283,000
Net increase (decrease) in cash and cash equivalents	2,715,000	(9,383,000)	10,376,000
Cash and cash equivalents at beginning of year	3,290,000	12,673,000	2,297,000
Cash and cash equivalents at end of year	$ 6,005,000	$ 3,290,000	$ 12,673,000
Supplemental information:			
Cash paid for interest	$ 250,000	$ 211,000	$ 254,000
Cash paid for income taxes	$ 4,263,000	$ 3,857,000	$ 2,293,000

See accompanying notes to financial statements.

Statement of Stockholders' Equity

	Preferred Stock		Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Paid In Capital	Stockholders' Notes Receivable	Retained Earnings
Balance at March 31, 1996	3,225,000	$ 32,000	3,342,101	$ 46,000	$ 737,000		$ 4,402,000
Issuance of common stock			2,034,635	3,000	15,307,000		
Conversion of preferred stock to common stock	(3,225,000)	(32,000)	2,365,538	32,000			
Shares subscribed						$ (80,000)	
Net income							3,172,000
Balance at March 31, 1997			7,742,274	81,000	16,044,000	(80,000)	7,574,000
Exercise of stock options			126,273		149,000		
Issuance for Employee Stock Purchase Plan			52,092		475,000		
Payment for shares subscribed						80,000	
Net income							5,287,000
Balance at March 31, 1998			7,920,639	81,000	16,668,000		12,861,000
Tax benefit from exercise of stock options					82,000		
Exercise of stock options			60,481		334,000		
Issuance for Employee Stock Purchase Plan			53,084		525,000		
Net income							6,296,000
Balance at March 31, 1999		—	8,034,204	$ 81,000	$ 17,609,000	—	$ 19,157,000

See accompanying notes to financial statements.

Notes to 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 digital satellite telecommunications and wireless signal processing equipment.

Management Estimates and Assumptions 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.

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

Investments At March 31, 1999, 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 reevaluates such designation as of each balance sheet date. The Company's investments in these securities as of March 31, 1999 and 1998 totaled $18,686,000 and $9,176,000, respectively. The Company has included $3,898,000 and $3,258,000 of these securities in cash and cash equivalents, as of March 31, 1999 and 1998, respectively, as they have original maturities of less than 90 days. The remaining $14,788,000 and $5,819,000 as of March 31, 1999 and 1998, respectively, have been classified as short-term investments. The Company has designated all of its investments as held to maturity.

Revenue Recognition The majority of the Company's revenues are derived from services performed for the United States Government and its prime contractors under a variety of contracts including cost-plus-fixed fee, fixed-price, and time and materials contracts. Such sales amounted to $65,478,000, $58,249,000, and $46,292,000 for the years ended March 31, 1999, 1998 and 1997, respectively. Included in these revenues are sales to a significant customer under various subcontracts totaling $9,058,000, $8,964,000 and $12,830,000 during the years ended March 31, 1999, 1998 and 1997, respectively. The Company's five largest contracts (by revenues) generated approximately 61%, 65% and 58% of the Company's total revenues for the fiscal year ended March 31, 1999, 1998 and 1997, respectively. Revenues to customers in foreign countries are not significant.

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

Contract costs, including indirect costs, are subject to audit and negotiations with Government representatives. These audits have been completed and agreed upon through fiscal year 1996. 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 Credit 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's principal customers are various agencies of the United States Government and its prime contractors.

Inventory Inventories are valued at the lower of cost or market, cost being determined by the first-in, first-out method.

Software Costs Software product 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, 1999, no significant amounts were expended subsequent to reaching technological feasibility.

Property and Equipment Equipment, computers, and furniture and fixtures are recorded at cost, and depreciated over estimated useful lives of 3 to 7 years under 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.

Long-lived Assets The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. 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. 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. Deferred income tax expense (benefit) is the net change during the year in the deferred income tax asset or liability.

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 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.

Fair Value of Financial Instruments At March 31, 1999, the carrying amounts of the Company's financial instruments, including cash equivalents, short-term investments, trade receivables and accounts payable, approximated their fair values due to their short-term maturities. At March 31, 1999, the estimated fair value of the Company's long-term debt approximated its carrying value, as a majority of the related borrowing rates are variable.

Note 2: Completion of Initial Public Offering

On December 3, 1996, the Company completed its initial public offering for the sale of 2,400,000 shares of common stock (of which 1,850,000 shares were sold by the Company and 550,000 shares were sold by certain stockholders) at a price to the public of $9 per share, which resulted in net proceeds to the Company of $15,485,000 after payment of the underwriters' commissions but before deduction of offering expenses.

Note 3: Composition of Certain Balance Sheet Captions

	March 31 1999	March 31 1998
Cash and cash equivalents:		
Investments in debt securities	$ 3,898,000	$ 3,258,000
Cash	2,107,000	32,000
	$ 6,005,000	$ 3,290,000
Accounts receivable:		
Billed	$ 7,765,000	$ 12,077,000
Unbilled	8,411,000	6,979,000
	$ 16,176,000	$ 19,056,000
Inventory:		
Raw materials	$ 914,000	$ 1,564,000
Work in process	1,157,000	2,372,000
Finished goods	454,000	751,000
	$ 2,525,000	$ 4,687,000
Property and equipment:		
Machinery and equipment	$ 9,249,000	$ 8,224,000
Computer equipment	4,179,000	4,108,000
Furniture and fixtures	326,000	339,000
	13,754,000	12,671,000
Less accumulated depreciation	(7,124,000)	(5,685,000)
	$ 6,630,000	$ 6,986,000
Accrued liabilities:		
Current portion of warranty reserve	$ 1,440,000	$ 1,279,000
Accrued vacation	1,143,000	974,000
Accrued bonus	1,195,000	500,000
Accrued 401(k) matching contribution	791,000	671,000
Income taxes payable	694,000	309,000
Collections in excess of revenues	527,000	930,000
Other	237,000	424,000
	$ 6,027,000	$ 5,087,000

Note 4: Short-Term Bank Borrowings

The Company's credit facilities, including the line of credit and commitment for future equipment financing, expired on December 15, 1998. The Company is in the process of renegotiating the terms of an agreement.

Note 5: Notes Payable

	March 31 1999	March 31 1998
Bank installment loans, with various maturity dates through September 2001, total monthly payments of $117,000 with interest rates ranging between 8% and 9%, collateralized by equipment	$ 2,462,000	$ 2,485,000
Finance company installment loans, with various maturity dates through April 1999, total monthly payments of $20,000 with interest rates ranging between 10.23% and 11.81%, collateralized by equipment		119,000
	2,462,000	2,604,000
Less current portion	(1,219,000)	(1,060,000)
	$ 1,243,000	$ 1,544,000

Principal maturities of notes payable as of March 31, 1999 are summarized as follows:

Year Ending March 31	
2000	$ 1,219,000
2001	908,000
2002	335,000
	$ 2,462,000

Note 6: Common Stock and Options

In July 1993, the Company adopted the 1993 Stock Option Plan (the "Plan") which authorizes 733,500 shares to be granted no later than July 2003. The Plan provides for the grant of both incentive stock options and non-qualified stock options which are subject to a three year vesting period. The exercise prices of the options represent the estimated fair value of the Company's common stock as determined by the Company's Board of Directors. In November 1996, the Plan was terminated and replaced by the 1996 Equity Participation Plan. No options have been issued under the Plan since July 1996.

In November 1996, the Company adopted the ViaSat, Inc. 1996 Equity Participation Plan (the "1996 Equity Participation Plan") designed to update and replace the 1993 Stock Option 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. A maximum of 1,250,000 shares are reserved for issuance under the 1996 Equity Participation Plan. As of March 31, 1999, the Company had granted options to purchase 762,000 shares of common stock under this plan with vesting terms of 3 to 5 years.

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 250,000 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, 1999, the Company has issued 105,176 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
Outstanding at March 31, 1996	310,087	$ .34 - 1.36
Options granted	295,673	4.09 - 10.75
Options canceled	(5,284)	.82 - 4.09
Options exercised	(73,458)	.34 - 1.36
Outstanding at March 31, 1997	527,018	.34 - 10.75
Options granted	269,450	12.25 - 19.81
Options canceled	(13,511)	.48 - 12.75
Options exercised	(126,273)	.34 - 4.09
Outstanding at March 31, 1998	656,684	.34 - 19.81
Options granted	324,000	7.38 - 17.08
Options canceled	(109,908)	1.36 - 15.53
Options exercised	(60,480)	.34 - 14.13
Outstanding at March 31, 1999	810,296	$ .48 - 19.81

The following table summarizes all options outstanding and exercisable by price range as of March 31, 1999:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life-Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.48 - 1.50	94,709	1.11	$ 1.23	94,709	$ 1.23
4.09 - 4.50	84,605	2.25	4.18	54,191	4.19
7.38 - 9.38	122,500	9.14	8.48	18,334	9.00
10.09 - 10.75	82,000	8.29	10.66	25,000	10.68
11.56 - 12.75	170,482	8.17	12.73	52,008	12.74
14.03 - 19.81	256,000	9.03	15.76	16,104	16.14
$ 0.48 - 19.81	810,296	7.16	10.60	260,346	6.52

Note 7: Shares Used in Earnings Per Share Calculations

	Year Ended March 31		
	1999	1998	1997
Weighted average common shares outstanding used			
in calculating basic net income per share	7,976,848	7,801,212	4,810,472
Weighted average options to purchase common stock as			
determined by application of the treasury stock method	185,452	360,118	226,840
Incremental shares for assumed conversion of convertible			
preferred stock	—	—	1,600,788
Employee Stock Purchase Plan equivalents	10,360	13,664	3,705
Shares used in computing diluted net income per share	8,172,660	8,174,994	6,641,805

All outstanding shares of the Company's preferred stock automatically converted into shares of common stock upon the closing of the Company's initial public offering on December 3, 1996. Shares used in computing diluted net income per share for 1997 assume the conversion of all outstanding shares of the convertible preferred stock at the beginning of those years. Antidilutive shares excluded from the calculation were 420,735; 18,493; and 24,527 shares for the fiscal years ended March 31, 1999, 1998 and 1997, respectively.

Note 8: 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	1998	1997	1999	1998	1997
Expected life (in years)	3.50 - 5.00	3.50 - 5.50	3.50 - 5.00	0.50	0.50	0.50
Risk-free interest rate	4.46 - 5.42%	5.65 - 5.68%	6.45%	5.66 - 6.22%	5.54%	5.97%
Expected volatility	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
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, 1998, and 1997 was $6.27, $6.30, and $3.55 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 1999, 1998 and 1997 was $4.00, $4.00 and $2.78 per share, respectively.

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, 1998 and 1997 are as follows:

	1999	1998	1997
Net income as reported	$ 6,296,000	$ 5,287,000	$ 3,172,000
Pro forma net income	5,157,000	4,489,000	3,016,000
Pro forma basic			
earnings per share	0.65	0.58	0.63
Pro forma diluted			
earnings per share	0.65	0.56	0.46

Note 9: Income Taxes

The provision for income taxes includes the following:

	Year Ended March 31		
	1999	1998	1997
Current tax provision			
Federal	$ 3,977,000	$ 3,200,000	$ 1,954,000
State	988,000	715,000	469,000
	4,965,000	3,915,000	2,423,000
Deferred tax (benefit)			
provision			
Federal	(863,000)	(683,000)	(563,000)
State	(219,000)	(128,000)	(158,000)
	(1,082,000)	(811,000)	(721,000)
Total provision for			
income taxes	$ 3,883,000	$ 3,104,000	$ 1,702,000

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

	March 31	
	1999	1998
Deferred tax assets:		
Warranty reserve	$ 706,000	$ 738,000
Inventory reserve	1,377,000	383,000
Accrued vacation	396,000	328,000
State income taxes	335,000	243,000
Other	337,000	377,000
Total deferred tax assets	$ 3,151,000	$ 2,069,000

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:

	Year Ended March 31		
	1999	1998	1997
Tax expense at			
statutory rate	$ 3,461,000	$ 2,853,000	$ 1,657,000
State tax provision,			
net of federal benefit	507,000	388,000	205,000
Research tax credit	(67,000)	(179,000)	(181,000)
Other	(18,000)	42,000	21,000
	$ 3,883,000	$ 3,104,000	$ 1,702,000

Note 10: Employee Benefits

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code. The Company may make discretionary contributions to the plan which vest equally over six years. Employees who 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, 1998 and 1997 amounted to $791,000, $671,000 and $553,000, respectively. The cost of administering the plan is not significant.

Note 11: Commitments

The Company leases office facilities under noncancelable operating leases with initial terms ranging from one to ten years which expire between November 1999 and December 2009. Certain of the Company's facilities leases contain option provisions which allow for extension of the lease terms. Rent expense was $1,312,000, $1,079,000 and $793,000 in fiscal years 1999, 1998 and 1997, respectively.

Future minimum lease payments are as follows:

Year Ending March 31	
2000	$ 1,465,000
2001	2,294,000
2002	2,294,000
2003	2,294,000
2004	2,294,000
Thereafter	12,999,000
	$ 23,640,000

Note 12: Contingencies

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

Note 13: Subsequent Event

From time to time, the Company issues standby letters of credit for its customers. In April 1999 the Company has secured these letters of credit with a $1,000,000 time certificate of deposit with the Company's bank.

Report of Independent Accountants

TO THE BOARD OF DIRECTORS
AND STOCKHOLDERS OF VIASAT, INC.

In our opinion, the accompanying balance sheet and the related statements of income, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of ViaSat, Inc. at March 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards 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 the opinion expressed above.

PricewaterhouseCoopers LLP
San Diego, California
May 12, 1999

Market for Registrant's Common Stock and Related Stockholder Matters

The Common Stock of the Company is traded on the Nasdaq National Market under the symbol "VSAT." The Common Stock was initially offered to the public on December 3, 1996 at $9.00 per share. The following table sets forth the range of high and low sales prices on the Nasdaq National Market of the Company's Common Stock for the periods indicated, as reported by Nasdaq. Such quotations represent inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

Fiscal 1998	High	Low
First Quarter	$ 16.13	$ 8.88
Second Quarter	23.50	11.00
Third Quarter	24.38	10.00
Fourth Quarter	19.13	12.81

Fiscal 1999	High	Low
First Quarter	$ 19.88	$ 14.00
Second Quarter	19.75	8.25
Third Quarter	12.63	7.00
Fourth Quarter	12.25	8.75

To date, the Company has neither declared nor paid any dividends on the Common Stock. The Company currently intends to retain all future earnings, if any, for use in the operation and development of its business and, therefore, does not expect to declare or pay any cash dividends on the Common Stock in the foreseeable future. As of June 21, 1999, there were 316 holders of record of the Common Stock.

Corporate Information

Board of Directors

Mark D. Dankberg
Chairman of the Board
President and CEO, ViaSat Inc.

B. Allen Lay
Southern California Ventures

Dr. Jeffrey M. Nash
Private Investor

Dr. Robert W. Johnson
Private Investor

James F. Bunker
President, Objectives Communications Inc.

Adm. William A. Owens (Ret.)
Vice Chairman, Teledesic LLC
CEO Teledesic Holdings

Officers

Mark D. Dankberg
Chairman of the Board
President and CEO

Gregory D. Monahan
Vice President, General Counsel and Secretary

Richard A. Baldridge
Vice President, CFO

Robert L. Barrie
Vice President Operations

Thomas E. Carter
Vice President and General Manager of Electronics Systems Group

Thomas M. Wittenschlaeger
Vice President and General Manager of StarWire

James P. Collins
Vice President Business Development

Frank Drdek
Vice President Human Resources

Steven R. Hart
Vice President, Engineering and Chief Technical Officer

Mark J. Miller
Vice President, Chief Technical Officer

Andrew M. Paul
Vice President, Business Development

LISTING

ViaSat Inc. is listed on the Nasdaq-Amex Stock Market under the trading symbol VSAT.

INDEPENDENT ACCOUNTANTS

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750 B Street, Suite 2400
San Diego, CA 92101

GENERAL LEGAL COUNSEL

Latham & Watkins
701 B Street, Suite 2100
San Diego, CA 92101-8197

TRANSFER AGENT AND REGISTRAR

Harris Trust Co. of California
601 S. Figueroa, 49th Floor
Los Angeles, CA 90017

ANNUAL MEETING

Wednesday, September 15, 1999
Del Mar Hilton

10-K

A copy of ViaSat's form 10-K filed with the Securities and Exchange Commission will be made available to all shareholders at no charge. The 10-K can also be accessed on the World Wide Web at the SEC Edgar site (http://www.sec.gov/cgi-bin/srch-edgar) or through the ViaSat Web site from the Investor Relations page. To receive a copy by mail, please contact:

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