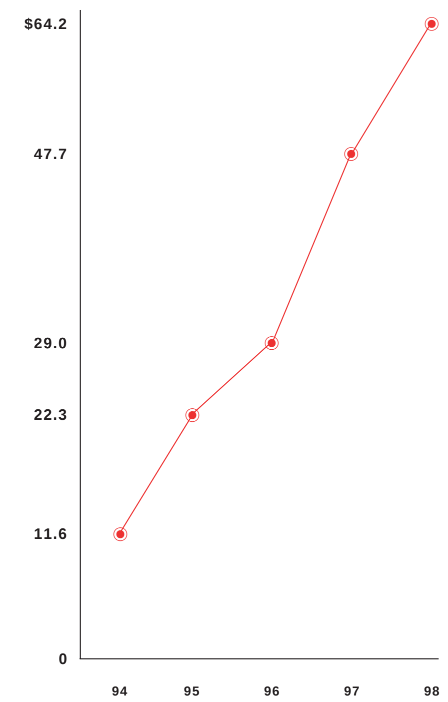
ViaSat 1998 ANNUAL REPORT

THE ART OF GLOBAL SATELLITE COMMUNICATIONS

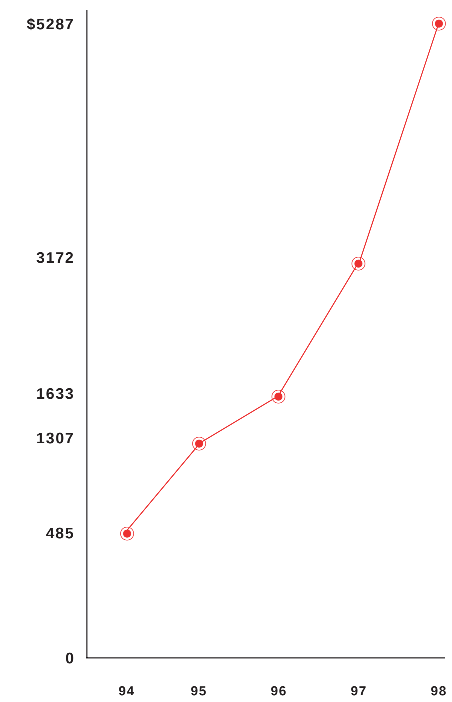
ViaSat, Inc., founded in 1986, competes in several niche markets in the digital communications industry. Our core expertise in digital signal processing and communications system software has resulted in products that have kept our revenues and earnings growing rapidly for 12 years. Key product segments include satellite communications, jam-resistant data links, communications security, and communications simulation and test.

Our workforce of over 300 employees is also growing. Engineering represents over half of our employees. Our technical prowess has helped us compete effectively with companies many times our size. The engine of ViaSat's growth has been supplying advanced communication technology to the US government. Over the last three years the company has made significant progress in applying this technology to rapidly growing international commercial markets for satellite communication.

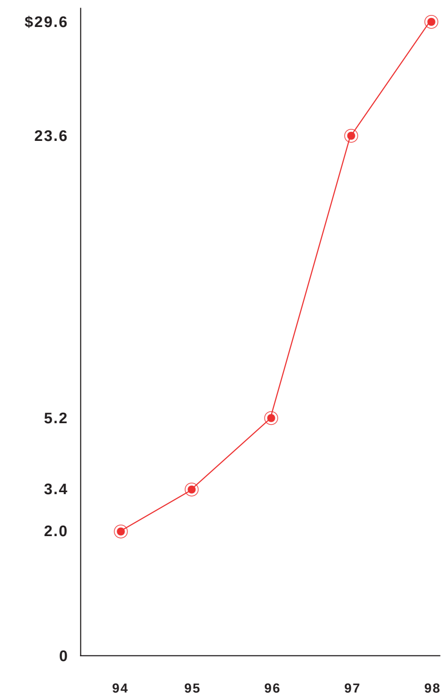
REVENUES
dollars in millions



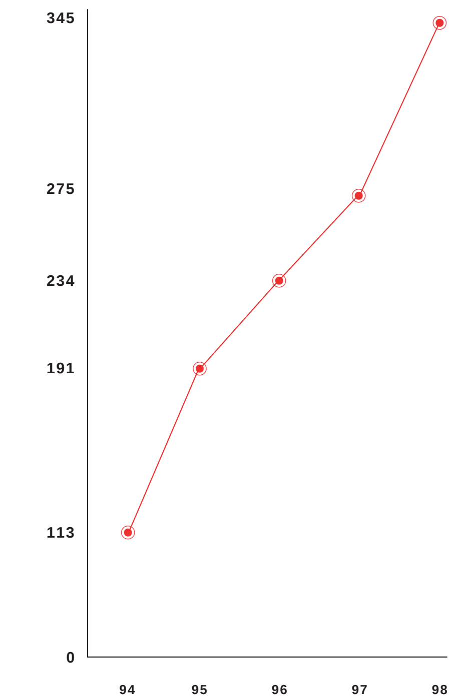
NET INCOME
dollars in thousands



STOCKHOLDERS' EQUITY
dollars in millions



EMPLOYEE GROWTH



A dynamic area of economic activity in its own right, telecommunications underlies practically all areas of economic activity and facilitates trade.

DEAR SHAREHOLDERS I am pleased to report that Fiscal Year 1998 was another successful year for ViaSat. The Company completed a number of challenging contracts, made substantial investments in research and development, and ramped up production of important new products.

It was a record financial year as well. Revenues increased by 35% over FY97—growing from $47.7 million to $64.2 million in FY98. Net income grew to $5.3 million, a 67% gain over the $3.2 million net income of FY97. Diluted net income per share increased from $0.48 in FY97 to $0.65 in FY98.

ViaSat's FY98 financial results reflect the accomplishments of our management team and workforce. I'd like to summarize some of the achievements that have helped propel the Company forward.

MANUFACTURING QUALITY During FY98 we earned a coveted ISO 9001 certification for our product development, manufacturing and support processes. This certification is a significant increase in scope from the ISO 9002 production process certification we achieved the previous year. We also completed delivery of 3000 Demand Assigned Multiple Access (DAMA) modems to Raytheon Systems Company (formerly Hughes Defense Communications) for the AN/PSC-5 satellite radio "manpack"—our largest production contract ever. We immediately commenced production of a follow-on order of 4000 additional units. Meanwhile, our manufacturing organization initiated or ramped up production of several new products, including PC-card satellite message processors, network encryption devices, satellite antenna processors, and DAMA remote control units.

TECHNOLOGY Advanced technology continues to be the foundation of ViaSat's competitive positioning. During FY98 we publicly announced our Paired Carrier Multiple Access (PCMA) technology. PCMA is a novel frequency re-use technique that can increase the bandwidth efficiency of two-way satellite links by up to 100%. PCMA received a US patent in 1997. During FY98 we demonstrated this capability on over-the-air satellite links. We plan further PCMA research and product development for the current fiscal year. PCMA is applicable to both commercial and government satellite networks.

We also introduced a new Internet Protocol (IP) driven DAMA capability for our commercial StarWire VSAT networks. We anticipate that Internet access will be a significant source of growth for two-way VSATs in the future. Production shipments of another new product, a UHF satellite antenna "combining" unit, also commenced. We expect that antenna spatial processing will be an increasingly important technology for future terrestrial and satellite wireless terminals.

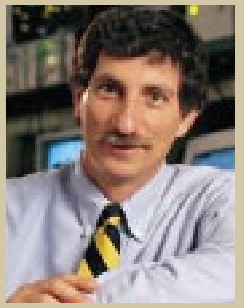
GOVERNMENT PROGRAMS ViaSat's government business achieved a number of important milestones during FY98. We completed deployment of a set of four UHF DAMA Network Control System (NCS) sites around the world. The DAMA NCS is needed to manage the thousands of DAMA subscriber terminals we are manufacturing. We also received our first contracts for shipboard UHF DAMA modems from the US Navy. Plus, ViaSat obtained initial DAMA modem orders from US allies overseas. Other notable accomplishments follow:

- A MIDS Production Readiness agreement with the US Navy to qualify the Company as a potential source of Link-16 radios.
- Our first volume production orders for the portable STAR Terminal.
- A large order from Lockheed-Martin for a communications simulation system.

COMMERCIAL SATELLITE NETWORKS Although still small, our StarWire commercial VSAT business grew significantly in FY98. Commercial revenues tripled compared to FY97. During FY98 we won accounts with new customers in new geographic regions. We fielded new releases of StarWire networking software, adding important technical and operational features to our portfolio. We plan for StarWire to continue to grow in importance to the Company in the coming years.

SATELLITE INDUSTRY OPPORTUNITIES Satellite communication is a very competitive and dynamic industry. The business and technical challenges are formidable. Yet, we believe that the ongoing revolution in wireless communication in general—and satellite communication in particular—will continue to create opportunities in the marketplace. We are working hard to build a company that offers a unique blend of space communication systems, ground equipment, and networking software expertise.

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



MARK D. DANKBERG

CHAIRMAN, CEO & PRESIDENT

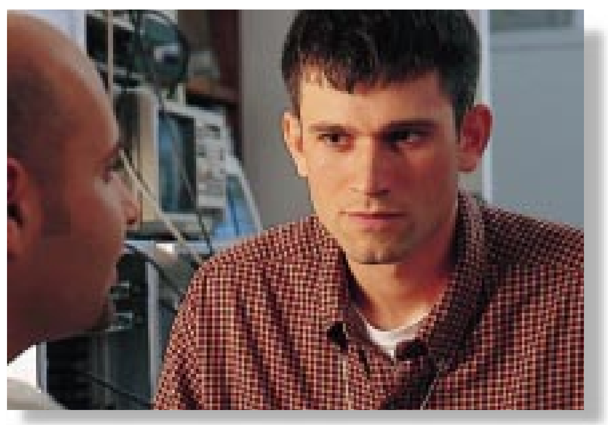
"BANDWIDTH" IS THE NEW UNIVERSAL currency of the digital age. Steady advances in computer processing and digital storage capacity have surfaced communications bandwidth as the bottleneck in both business- and consumer-oriented networks. Wired and wireless service providers alike are focused on expanding the capacity of their networks.

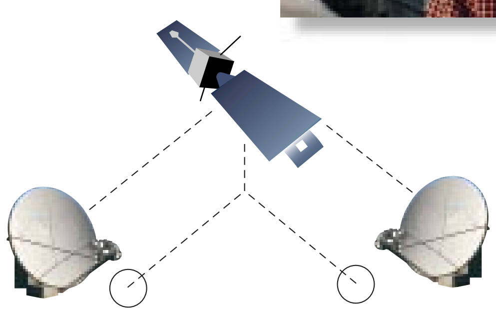
ViaSat's DAMA technology has always been aimed at making the most effective use of limited satellite bandwidth—squeezing more bits through less spectrum. During FY98 we announced a new technique for frequency re-use on two-way "bent pipe" satellite links. Paired Carrier Multiple Access (PCMA) is a new and patented method for simultaneously transmitting both directions of a satellite circuit through just one channel. Signal processors at each satellite terminal separate the desired signal from the combined downlink.

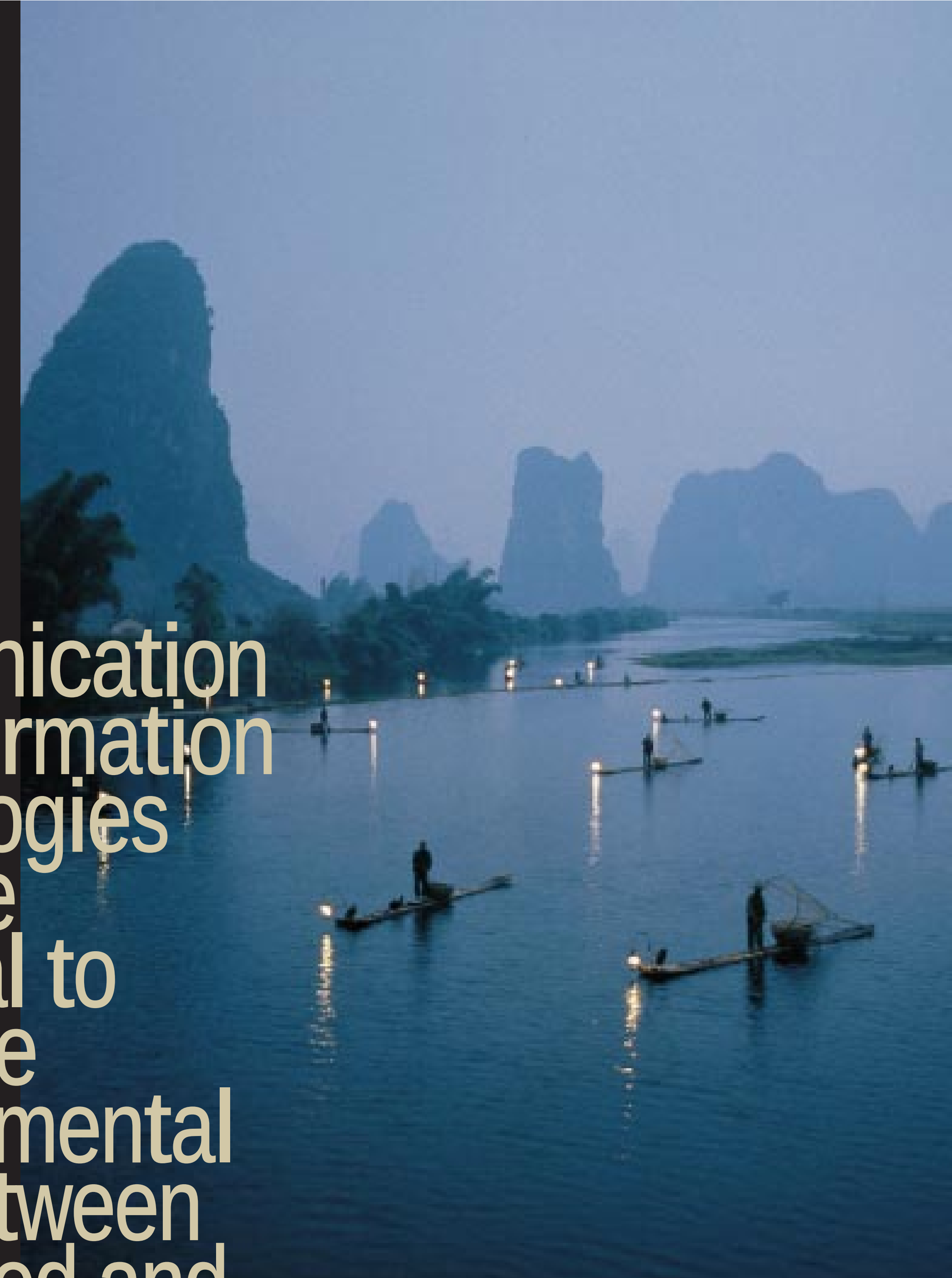
FCC frequency auctions vividly illustrate the dollar values of frequency spectrum allocated to wireless communication services. While bandwidth demands are most obvious in terrestrial networks, the same dynamics apply to space-based systems. In fact, the fundamental reason satellite operators are venturing into newer and technically risky frequencies such as Ka band (20/30 GHz) or V band (40/50 GHz) is because of the squeeze in orbital slots and spectrum at the more desirable C (4/6 GHz) and Ku band frequencies (12/14 GHz). PCMA can effectively double the capacity of satellites and orbital slots at these bands. It has the potential of reducing the cost of ground and space segment alike, leading to lower prices for satellite services, and expanding markets.

Other satellite systems have always used separate channels for each direction. For symmetric applications (such as telephone service, video conferencing, or digital T-1 links), PCMA can double bandwidth efficiency. Increased bandwidth efficiency translates directly into higher data rates, more subscribers, and lower transmission costs.

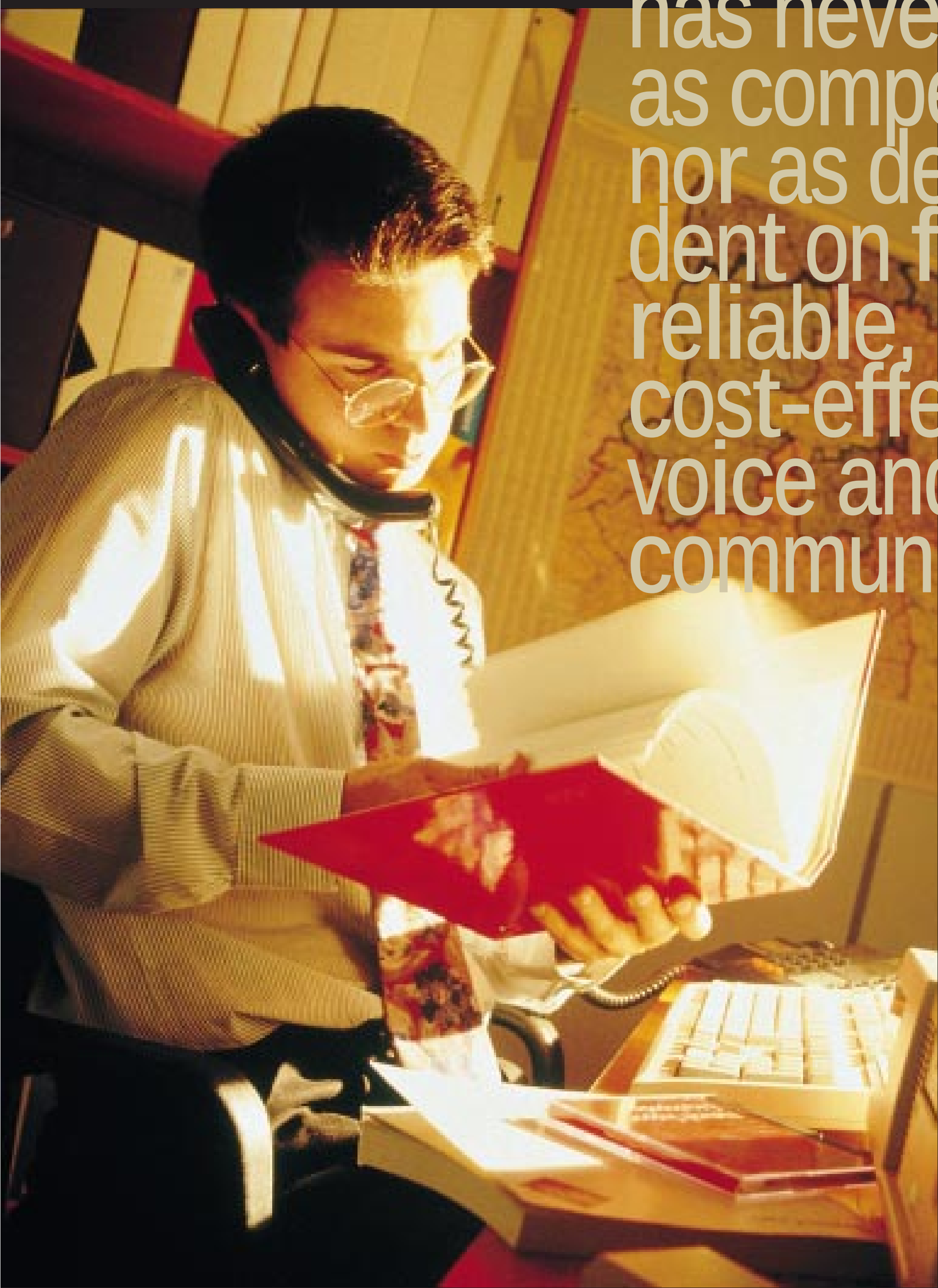
PCMA is still being developed, tested, and integrated into our DAMA products. Initial satellite measurements have yielded favorable results, and the Company is working with service providers to explore applications in satellite telephony and broadband Internet access.







Communication and information technologies have the potential to close the developmental gaps between developed and developing countries.



Today’s business environment has never been as competitive nor as dependent on fast, reliable, and cost-effective voice and data communications.

What are StarWire’s competitive advantages? DAMA technology is *hubless*—with no expensive central earth station to send and receive data from other VSAT nodes. DAMA networks allow any two VSATs to communicate directly, reducing end-to-end delay and saving satellite bandwidth. These characteristics are especially important for so-called *mesh* voice networks, where any two satellite terminals may need to talk. While TDM / TDMA VSATs have been traditionally used for satellite data networks, DAMA is now an attractive option. *Mainframe* computer networks were well suited to TDM / TDMA hub-and-spoke architecture, since most remote nodes were simply “*dumb terminals*”—always communicating to a host computer at the hub. But the growth of *client server* and *intranets* are well matched to *hubless* DAMA topology—supporting single hop links from any server to any other network server or client. ViaSat’s StarWire offers powerful *Internet Protocol* (IP) DAMA that automatically manages bandwidth up to 2 Mbps from any network node for file transfers, IP video conferencing, or other advanced services.

STARWIRE IS OUR FAMILY of Very Small Aperture Terminals (VSAT) for commercial satellite networking. StarWire enables telephone, fax, data, videoconferencing and Internet access over satellites in geosynchronous orbits. It leverages ViaSat’s expertise in DAMA technology to efficiently manage scarce satellite bandwidth. Satellite transmission is an economical alternative in many developing nations where terrestrial voice and data networks are limited or unavailable.

Although still an emerging business for us, ViaSat’s StarWire sales more than tripled from FY97 to FY98. During the past year we have focused on installing and growing initial networks based in the Caribbean, India, Asia Pacific, Latin America, the Middle East, and Africa. The Company made significant investments in subscriber terminal development, network management, networking features and functions, and operational support and maintenance.

In the coming year ViaSat is continuing product development with new applications for public network telephone service, advanced features for Internet access, and low-cost, single-line satellite terminals.

DAMA NETWORKING in the UHF satellite band remained our largest business area in fiscal 1998. UHF DAMA business consists of products, funded research and development, and customer support for the US Department of Defense ("DOD") and allies. Our product portfolio includes a global satellite network management system, satellite subscriber modems, associated remote control units, "embedded" DAMA modems integrated into our customers' satellite radios, packet data processors, active antenna processors, and more.

ViaSat reached a milestone this year with completion of the worldwide 5 kHz UHF DAMA network control system. Four control terminals are dispersed around the globe at the intersection of adjoining satellite footprints, using sophisticated software to automatically route messages worldwide. This contract, begun in 1996, was one of the largest and most complex ever undertaken by the Company. It included site surveys, integration, installation, and support of complex satellite terminals. Successful completion means mobile DOD satellite users can obtain the benefits of automatic bandwidth-on-demand services.

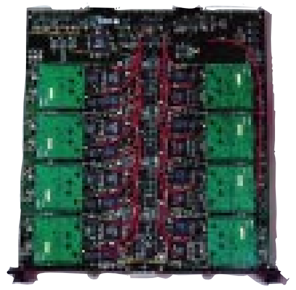
Our subscriber terminal business also showed growth. We completed our initial order of 3000 "manpack" modems, and started on the next order of 4000 more. Sales of stand-alone MD-1324 DAMA modems increased. We began volume shipments of the associated C-12480/U remote control. We received initial orders for shipboard applications and from international customers. We began volume shipments of the PDC—a PC-card version of our popular Advanced Data Controller. And a new Windows® e-mail and messaging software package was introduced, providing a simplified interface for UHF DAMA and PDC satellite users.

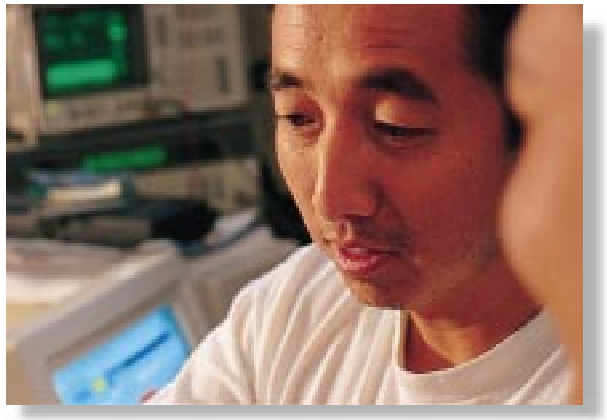
How do you aim a satellite antenna from a moving airplane? One of our unique products is the QDC-100 Quad Diversity Combiner. It combines four satellite antennas into one steerable high-gain "virtual" antenna. First production units were completed in March and are in use on US Navy P3 reconnaissance aircraft in the Anti Surface Warfare Improvement Program (AIP). Without the Combiner, airborne satellite communications can be interrupted if a single fixed antenna is pointed away from the satellite by aircraft position changes.

Markets for the Combiner could potentially expand to international customers and shipboard applications. US and allied navies are considering the product for shipboard use, where it could replace heavy, mechanically driven antennas.

ViaSat software gives you a familiar interface to create, manage, and log your communications over wireless channels.

RF simulators provide an easy-to-manage, repeatable, programmable system for creating realistic waveforms and signal densities.





Why do aircraft manufacturers need our simulation and test systems? Lockheed Martin Aeronautical Systems (LMAS) is the first prime contractor to purchase a simulator, ordering a $15 million system in November 1997. This simulator will test avionics systems aboard the new F-22 Raptor fighter, scheduled to replace the F-15 as the top jet fighter for the US Air Force in 2004.

Part of the charter for the F-22 design is to provide far greater reliability than its predecessor, including a 100 percent improvement in weapons system capability. Pilots spend a lot of time managing current avionics systems, but the new F-22 promises to free pilots to concentrate on the mission instead. That capability calls for much more sophisticated offensive and defensive sensors and avionics—a highly integrated system that will require more rigorous testing.

MASTERY OF THE DIGITAL air waves is an important component of modern warfare. But the "digital battlefield" is a complex environment. Not only do communications devices transmit and receive radio signals, but so do navigation, identification, and weapons systems. It's no easy task to ensure that the communication, navigation, identification, and sensor-processing suites onboard modern aircraft work together. Even after each individual subsystem is tested, the interaction of all the equipment on board can undermine critical functions. Worse, total system performance can be measured only in the presence of complex, time-varying radio frequency (RF) stimulation that tests not only the equipment, but the operational procedures used to respond to various tactical situations, too.

ViaSat has been developing extremely sophisticated RF Communication Environment Simulation systems for over ten years. In fiscal 1997 we received a $22 million order from the Air Force and Navy for a Joint Communication Simulator (JCS) that allows test engineers to develop and exercise intricate scenarios involving hundreds or thousands of high-fidelity friendly, neutral, and enemy signals under very controlled conditions. These tests have previously required flight tests, which are not easily repeatable.

ViaSat is actively working with airframe manufacturers and government test labs to develop additional applications where our communication environment technology can save money by shortening program schedules or reducing extremely costly flight testing.

VIASAT'S BUSINESS HAS HISTORICALLY included a blend of funded Research & Development as well as product manufacturing. Funded R&D spans a range from experimental advanced research to highly focused product developments. Our funded R&D projects provide a valuable opportunity to explore new ideas ranging from new signal processing and coding techniques to miniaturized wireless transceiver technology. The projects often lead to new products, and always stimulate ideas and technology cross-fertilization. The combination of customer funded and discretionary R&D enables us to maintain a staff of over 160 engineers—a substantial number for a company our size.

During FY98 we completed our Embeddable Infosec Product (EIP) R&D contract with the Navy and began shipping the first of several hundred production units. EIP is a networked communication encryption device with TCP/IP (Internet) protocol support.

Several advanced funded R&D projects are under way:

• Handheld one-way or two-way spread spectrum sensor transceivers for remote monitoring or telemetry.

• "Per Survivor Processing" (PSP) signal processing techniques that can enhance the performance of cellular telephones and base stations in the presence of interference or severely impaired channels. ViaSat is the exclusive licensee of a patent for PSP technology developed at the University of Southern California.

• Application of ViaSat's patented Paired Carrier Multiple Access (PCMA) to satellite Internet "return channels."

MIDS, a NATO communications program, is a model of multination cooperation. The US, Spain, Germany, France, and Italy are all cooperating on the program to build a secure, jam-resistant network that can help the nations coordinate their forces in joint military action. MIDS, which can transmit voice and data between ships, aircraft, and fixed locations, is based on the highly reliable "Link-16" communications standard. To further the use of MIDS, NATO needs to reduce the cost of the terminals, which traditionally have been priced at nearly $1 million per unit. During FY98 we executed a $5 million production readiness agreement with the MIDS International Program Office, preparing us to compete for volume manufacturing. ViaSat has already produced a terminal, which we are now tailoring to add MIDS-unique requirements. We expect the result to reduce the cost dramatically.

Our funded R&D projects provide a valuable opportunity to explore new ideas ranging from signal processing and coding techniques to miniaturized wireless transceiver technology.

Financial Contents

Selected Financial Data

The following selected financial data should be read in conjunction with the annual financial statements, related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report. All amounts shown are in thousands, except per share data.

	Years Ended March 31,				
	1998	1997	1996	1995	1994
Statement of Income Data:					
Revenues	$ 64,197	$ 47,715	$ 29,017	$ 22,341	$ 11,579
Cost of revenues	40,899	33,102	20,983	16,855	9,033
Gross profit	23,298	14,613	8,034	5,486	2,546
Operating expenses:					
Selling, general, and administrative	7,862	4,752	3,400	2,416	1,554
Independent research and development	7,631	5,087	2,820	788	134
Income from operations	7,805	4,774	1,814	2,282	858
Net interest income (expense)	586	100	(231)	(87)	(45)
Income before income taxes	8,391	4,874	1,583	2,195	813
Provision (benefit) for income taxes	3,104	1,702	(50)	888	328
Net income	$ 5,287	$ 3,172	$ 1,633	$ 1,307	$ 485
Basic net income per share (1)	$ 0.68	$ 0.66	$ 0.50	$ 0.42	$ 0.16
Diluted net income per share (1)	$ 0.65	$ 0.48	$ 0.28	$ 0.24	$ 0.09
Shares used in basic per share calculations (1)	7,801	4,810	3,267	3,080	2,957
Shares used in diluted per share calculations (1)	8,175	6,642	5,735	5,479	5,323
Balance Sheet Data:					
Cash and short-term investments	$ 9,208	$ 12,673	$ 2,297	$ 2,731	$ 9
Working capital	24,276	20,406	4,651	2,808	1,486
Total assets	42,793	35,674	13,262	9,377	4,986
Long-term debt, less current portion	1,544	1,428	1,747	1,220	297
Total stockholders' equity	29,610	23,619	5,217	3,413	1,956

(1) Earnings per share calculations have been restated to comply with Statement of Financial Accounting Standards (SFAS) No. 128. For an explanation of the determination of the number of shares used in computing net income per share, see Note 1 and Note 7 of the Notes to Financial Statements.

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 DOD. The Company's DOD revenues have continued to grow despite government budgetary constraints. Since 1992, the Company's total revenues have grown at a compounded annual growth rate of approximately 58%. DOD revenues amounted to $58.2 million and $46.3 million for the fiscal years ended March 31, 1998 and 1997, respectively. 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 72.8% and 63.3% of the Company's total revenues for the fiscal years ended March 31, 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 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 22.6% and 30.7% of the Company's revenues for the fiscal years ended March 31, 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, 1998, the Company had firm backlog of $72.7 million, of which $48.0 million was funded. Of the $72.7 million in firm backlog, approximately $46.6 million is expected to be delivered in the fiscal year ending March 31, 1999, approximately $15.2 million is expected to be delivered in the fiscal year ending March 31, 2000, and the balance is expected to be delivered in the fiscal years ending March 31, 2001 and thereafter. The Company received $58.0 million in awards during the year ended March 31, 1998, consisting of $19.6 million in UHF DAMA satellite communications awards, $15.8 million in awards for the defense simulator business, $18.4 million in other defense awards, and $4.2 million in commercial satellite communications awards. The Company's $72.7 million in firm backlog at March 31, 1998, excludes an additional $24.3 million of customer options.

Historically, a significant portion of the Company's revenue has been derived from research and development contracts with the DOD. 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, 1998 and 1997 were approximately $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 52.6% and 35.3% of fiscal 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 telephony and other satellite DAMA products. The Company expended 11.9% and 10.6% of revenues in IR&D during the fiscal years ended March 31, 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		
	1998	1997	1996
Revenues	100.0%	100.0%	100.0%
Cost of revenues	63.7	69.4	72.3
Gross profit	36.3	30.6	27.7
Operating expenses:			
Selling, general, and administrative	12.2	10.0	11.7
Independent research and development	11.9	10.6	9.7
Income from operations	12.2	10.0	6.3
Income before income taxes	13.1	10.2	5.5
Net income	8.2	6.6	5.6

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 Selling, general, and administrative ("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.

Fiscal Year Ended March 31, 1997 vs. Fiscal Year Ended March 31, 1996

REVENUES The Company's revenues increased 64.4% from $29.0 million in fiscal 1996 to $47.7 million in fiscal 1997. This increase was primarily due to a $13.0 million increase in revenues generated by contracts with the U.S. Air Force for UHF DAMA network control stations, and a revenue increase of $8.7 million generated by EMUT DAMA modem production, offset in part by reduced activity in other product lines and the completion of certain contracts. UHF DAMA business area revenues grew from $12.4 million (42.8% of revenues) in fiscal 1996 to $32.8 million (68.8% of revenues) in fiscal 1997.

GROSS PROFIT Gross profit increased 81.9% from $8.0 million (27.7% of revenues) in fiscal 1996 to $14.6 million (30.6% of revenues) in fiscal 1997. This increase primarily reflects improved contract profitability and higher prices related to the recovery of allowable IR&D costs under certain government contracts.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES SG&A expenses increased 39.8% from $3.4 million (11.7% of revenues) in fiscal 1996 to $4.8 million (10.0% of revenues) in fiscal 1997. The Company continued to increase administrative staff to support IR&D related to its StarWire DAMA product, increased its business development staff for defense programs, and added to finance and administrative staffing. Bid and proposal efforts increased from $1.0 million in fiscal 1996 to $1.2 million in fiscal 1997.

INDEPENDENT RESEARCH AND DEVELOPMENT IR&D expenses increased 80.4% from $2.8 million (9.7% of revenues) in fiscal 1996 to $5.1 million (10.6% of revenues) in fiscal 1997. Expenditures on the development of the Company's StarWire DAMA product began in the last quarter of fiscal 1995 and have steadily increased.

INTEREST EXPENSE Interest expense decreased 2.3% from $260,000 in fiscal 1996 to $254,000 in fiscal 1997. Total outstanding equipment loans were $2.5 million at the end of fiscal 1996 and $2.6 million at the end of fiscal 1997. There were no outstanding borrowings under the Company's line of credit at the end of each fiscal year.

INTEREST INCOME Interest income increased from $29,000 in fiscal 1996 to $354,000 in fiscal 1997. Interest income relates to interest earned on short-term deposits of cash.

PROVISION (BENEFIT) FOR INCOME TAXES The income tax benefit in fiscal 1996 was primarily attributable to the utilization of research and development credits generated during the current period and the impact of a United States Federal judicial decision which clarified the tax law related to the utilization of research and development credits generated from funded research and development. The income tax provision in fiscal 1997 was less than the combined federal and state statutory rate due to the utilization of research and development credits.

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 used in operating activities for the fiscal years ended March 31, 1998 and 1997 was $127,000 and $1.2 million, respectively. The relative decrease in cash used for operating activities for the year ended March 31, 1998, compared to the prior year was primarily due to an increase in net income of $2.1 million, relatively flat inventory growth, and a reduction in other assets, which was offset by an increase in accounts receivable and a decrease in accounts payable. Other assets decreased primarily due to the collection of a non-trade receivable. The increase in accounts receivable resulted from an increase in the Company's revenues and the timing of customer payments.

Cash used in investing activities for the fiscal years ended March 31, 1998 and 1997 was $10.0 million and $3.7 million, respectively. This increase was the result of purchasing $5.9 million in short-term, investment-grade debt securities and purchases of property and equipment, primarily consisting of test equipment and computers.

Cash provided by financing activities for the fiscal years ended March 31, 1998 and 1997 was $745,000 and $15.3 million, respectively. This decrease was primarily the result of $14.8 million of capital raised in the Company's initial public offering which closed in December 1996.

At March 31, 1998, the Company had $3.3 million in cash and cash equivalents, $5.9 million in short-term investments, $24.3 million in working capital and $2.6 million in long-term debt, which consists of equipment financing. The Company had a zero balance under its line of credit at March 31, 1998 and 1997.

The Company's credit facility with Union Bank includes a $6.0 million line of credit and $4.5 million in commitments for equipment financing. The line of credit allows the Company to borrow, for general working capital purposes, the greater of $2.0 million or 80% of eligible accounts receivable plus 50% of the Company's eligible inventory. At the Company's option, interest accrues either at the bank's prime rate (8.5% at March 31, 1998) or at the bank's LIBOR rate plus 1.75% (7.44% at March 31, 1998). The credit facility expires on September 15, 1998. The Company is required to pay a fee equal to 0.09% of the unused portion of the line of credit on a quarterly basis.

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. The first and second loans have been converted into fully amortizing loans which mature on September 15, 1999 and 2000, respectively. All borrowings under the third loan, which may not exceed $2.5 million, must be made before September 15, 1998, at which time all unpaid principal under such loan will be converted into a fully amortizing loan for a period of 36 months with a maturity date of September 15, 2001.

The Company has commenced the evaluation of computer systems and products to insure its operations will not be adversely effected by the year 2000 software problems. Presently, the Company does not believe that year 2000 compliance will result in additional material investments by the Company, nor does the Company anticipate that the year 2000 problem will have a material adverse effect on the business operations or financial performance of the Company. There can be no assurances, however, that the year 2000 problem will not adversely effect the Company and its business.

The Company's future capital requirements, which management anticipates will not exceed $10.0 million 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, amounts available under its credit facilities, 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.

Summarized Quarterly Data (Unaudited)

Summarized quarterly data for fiscal 1998 and 1997 is as follows (in thousands, except per share data):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
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 (1)	0.15	0.15	0.17	0.20
Diluted net income per share (1)	0.15	0.15	0.16	0.19
1997				
Revenues	$ 9,732	$ 11,850	$ 12,079	$ 14,054
Gross profit	2,870	3,379	3,832	4,532
Income from operations	772	947	1,288	1,767
Net income	478	604	853	1,237
Basic net income per share (1)	0.14	0.18	0.18	0.16
Diluted net income per share (1)	0.08	0.10	0.13	0.15

(1) Earnings per share calculations have been restated to comply with Statement of Financial Accounting Standards (SFAS) No. 128. Basic and diluted net income per share computations for each quarter are independent and may not add up to the net income per share computation for the respective year. See Note 1 and Note 7 of Notes to the Financial Statements for an explanation of the determination of basic and diluted net income per share.

Balance Sheet

	March 31 1998	March 31 1997
Assets		
Current assets:		
Cash and cash equivalents	$ 3,290,000	$ 12,673,000
Short-term investments	5,918,000	—
Accounts receivable	19,056,000	10,315,000
Inventory	4,687,000	4,478,000
Deferred income taxes	1,548,000	863,000
Other current assets	479,000	1,825,000
Total current assets	34,978,000	30,154,000
Property and equipment, net	6,986,000	5,085,000
Other assets	829,000	435,000
Total assets	$ 42,793,000	$ 35,674,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,555,000	$ 4,844,000
Accrued liabilities	5,087,000	3,769,000
Current portion of notes payable	1,060,000	1,135,000
Total current liabilities	10,702,000	9,748,000
Notes payable	1,544,000	1,428,000
Other liabilities	937,000	879,000
Total long-term liabilities	2,481,000	2,307,000
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, 1998 and 1997, respectively		
Common stock, $.0001 par value, 25,000,000 shares authorized; 7,920,639 and 7,742,274 shares issued and outstanding at March 31, 1998 and 1997, respectively	81,000	81,000
Paid in capital	16,668,000	16,044,000
Stockholders' notes receivable	—	(80,000)
Retained earnings	12,861,000	7,574,000
Total stockholders' equity	29,610,000	23,619,000
Total liabilities and stockholders' equity	$ 42,793,000	$ 35,674,000

See accompanying notes to financial statements.

Statement of Income

	Year Ended March 31		
	1998	1997	1996
Revenues	$ 64,197,000	$ 47,715,000	$ 29,017,000
Cost of revenues	40,899,000	33,102,000	20,983,000
Gross profit	23,298,000	14,613,000	8,034,000
Operating expenses:			
Selling, general, and administrative	7,862,000	4,752,000	3,400,000
Independent research and development	7,631,000	5,087,000	2,820,000
Income from operations	7,805,000	4,774,000	1,814,000
Other income (expense):			
Interest income	797,000	354,000	29,000
Interest expense	(211,000)	(254,000)	(260,000)
Income before income taxes	8,391,000	4,874,000	1,583,000
Provision (benefit) for income taxes	3,104,000	1,702,000	(50,000)
Net income	$ 5,287,000	$ 3,172,000	$ 1,633,000
Basic net income per share	$ 0.68	$ 0.66	$ 0.50
Diluted net income per share	$ 0.65	$ 0.48	$ 0.28
Shares used in computing basic net income per share	7,801,212	4,810,472	3,267,141
Shares used in computing diluted net income per share	8,174,994	6,641,805	5,734,637

See accompanying notes to financial statements.

Statement of Cash Flows

	Year Ended March 31		
	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 5,287,000	$ 3,172,000	$ 1,633,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	2,182,000	1,389,000	982,000
Deferred income taxes	(811,000)	(721,000)	(350,000)
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	(8,741,000)	(4,144,000)	(1,871,000)
Inventory	(209,000)	(3,255,000)	(1,019,000)
Other assets	1,078,000	(1,620,000)	(186,000)
Accounts payable	(289,000)	2,070,000	1,294,000
Accrued liabilities	1,318,000	1,612,000	(512,000)
Other liabilities	58,000	275,000	485,000
Net cash (used in) provided by operating activities	(127,000)	(1,222,000)	456,000
Cash flows from investing activities:			
Purchases of short-term investments	(5,918,000)	—	—
Purchases of property and equipment	(4,083,000)	(3,685,000)	(1,875,000)
Net cash used in investing activities	(10,001,000)	(3,685,000)	(1,875,000)
Cash flows from financing activities:			
Proceeds from short-term bank borrowings	—	2,600,000	1,400,000
Repayment of short-term bank borrowings	—	(2,600,000)	(1,400,000)
Proceeds from issuance of notes payable	1,448,000	889,000	2,778,000
Repayment of notes payable	(1,407,000)	(836,000)	(1,964,000)
Proceeds from issuance of common stock	704,000	15,230,000	171,000
Net cash provided by financing activities	745,000	15,283,000	985,000
Net (decrease) increase in cash and cash equivalents	(9,383,000)	10,376,000	(434,000)
Cash and cash equivalents at beginning of year	12,673,000	2,297,000	2,731,000
Cash and cash equivalents at end of year	$ 3,290,000	$ 12,673,000	$ 2,297,000
Supplemental information:			
Cash paid for interest	$ 211,000	$ 254,000	$ 260,000
Cash paid for income taxes	$ 3,857,000	$ 2,293,000	$ 468,000

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, 1995	3,225,000	$ 32,000	3,207,339	$ 44,000	$ 568,000		$ 2,769,000
Issuance of common stock			134,762	2,000	169,000		
Net income							1,633,000
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		
Issuances 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

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, 1998, 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 total investments in these securities as of March 31, 1998 and 1997 totaled $9,176,000 and $8,979,000, respectively. The Company has included $3,258,000 and $8,979,000 of these securities in cash and cash equivalents, as of March 31, 1998 and 1997, respectively, as they have maturities of less than 90 days. The remaining $5,918,000 as of March 31, 1998 has 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 $58,249,000, $46,292,000, and $28,305,000 for the years ended March 31, 1998, 1997 and 1996, respectively. Included in these revenues are sales to a significant customer under various subcontracts totaling $8,964,000, $12,830,000 and $5,269,000 during the years ended March 31, 1998, 1997 and 1996, respectively. The Company's five largest contracts (by revenues) generated approximately 65%, 58% and 37% of the Company's total revenues for the fiscal year ended March 31, 1998, 1997 and 1996, respectively.

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

Contract costs, including indirect costs, are subject to audit and negotiations with Government representatives. These audits have been completed and agreed upon through fiscal year 1995. 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 which invest 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, 1998, 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 recognizes 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 (Note 8).

EARNINGS PER SHARE In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", which establishes new standards for computing earnings per share. Under the new requirements, historically reported "primary" and "fully diluted" earnings per share have been replaced with "basic" and "diluted" 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. All earnings per share data reported in prior years has been restated in accordance with SFAS No. 128.

FAIR VALUE OF FINANCIAL INSTRUMENTS At March 31, 1998, 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, 1998, 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.

RECAPITALIZATION In November 1996, the Company filed an Amended and Restated Certificate of Incorporation to effect a .7335 for 1 reverse stock split of all outstanding shares of common stock and stock options. All shares and per share data in the accompanying financial statements have been adjusted retroactively to give effect to the reverse stock split. The Amended and Restated Certificate of Incorporation increases the authorized stock of the Company such that the Company is authorized to issue 5,000,000 shares of $0.0001 par value preferred stock, and 25,000,000 shares of $0.0001 par value common stock. Concurrently, the conversion ratio of the Company's preferred stock was changed to .7335 for 1.

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	
	1998	1997
Cash and cash equivalents:		
Investments in debt securities	$ 3,258,000	$ 8,979,000
Certificates of deposit	—	1,500,000
Cash	32,000	2,194,000
	$ 3,290,000	$ 12,673,000
Accounts receivable:		
Billed	$ 12,077,000	$ 6,860,000
Unbilled, less progress payments of $3,092,000 and $7,399,000 at March 31, 1998 and 1997, respectively	6,979,000	3,455,000
	$ 19,056,000	$ 10,315,000
Inventory:		
Raw materials	$ 1,564,000	$ 1,418,000
Work in process	2,372,000	2,662,000
Finished goods	751,000	398,000
	$ 4,687,000	$ 4,478,000
Property and equipment:		
Machinery and equipment	$ 8,224,000	$ 5,320,000
Computer equipment	4,108,000	3,012,000
Furniture and fixtures	339,000	256,000
	12,671,000	8,588,000
Less accumulated depreciation	(5,685,000)	(3,503,000)
	$ 6,986,000	$ 5,085,000
Accrued liabilities:		
Current portion of warranty reserve	$ 1,279,000	$ 806,000
Accrued vacation	974,000	821,000
Collections in excess of revenues	930,000	355,000
Accrued 401(k) matching contribution	671,000	553,000
Accrued bonus	500,000	762,000
Income taxes payable	309,000	252,000
Other	424,000	220,000
	$ 5,087,000	$ 3,769,000

Note 4 - Short-Term Bank Borrowings

The Company has a $6,000,000 line of credit with a bank which allows it to borrow the greater of $2,000,000 or 80% of eligible accounts receivable plus 50% of the Company's eligible inventory. At the Company's option, interest accrues either at the bank's prime rate (8.5% at March 31, 1998) or at the bank's LIBOR rate plus 1.75% (7.44% at March 31, 1998). There were no borrowings outstanding as of March 31, 1998 and 1997. The Company is required to pay a fee equal to 0.09% of the unused portion of the line of credit on a quarterly basis. The credit agreement includes covenants which, among other things, require the Company to maintain stated net worth amounts plus specific liquidity and long-term solvency ratios as well as a minimum net income level. The line of credit expires on September 15, 1998. Amounts borrowed are secured by substantially all of the Company's assets.

Note 5 - Notes Payable

	March 31	
	1998	1997
Bank installment loans, with various maturity dates through September 2001, total monthly payments of $89,000 with interest rates ranging between 8% and 12%, collateralized by equipment	$ 2,485,000	$ 2,232,000
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	331,000
	2,604,000	2,563,000
Less current portion	(1,060,000)	(1,135,000)
	$ 1,544,000	$ 1,428,000

Principal maturities of notes payable as of March 31, 1998, are summarized as follows:

Year Ending March 31	
1999	$ 1,060,000
2000	873,000
2001	517,000
2002	154,000
	$ 2,604,000

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 750,000 shares are reserved for issuance under the 1996 Equity Participation Plan. As of March 31, 1998, the Company has granted 438,000 options to purchase 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, 1998, the Company has issued 52,092 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, 1995	190,416	$ .34 - .82
Options granted	128,033	1.36
Options canceled	(147)	.82
Options exercised	(8,215)	.34 - .82
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

The Company also granted certain officers and employees the opportunity to purchase at fair value 118,607 and 124,805 shares of the Company's common stock in fiscal 1997 and 1996, respectively.

The following table summarizes all options outstanding and exercisable by price range as of March 31, 1998:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life-Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.34 - 1.50	119,812	1.99	$ 1.13	74,242	$ 1.07
4.09 - 4.50	98,031	3.25	4.17	25,936	4.19
9.00 - 12.75	355,341	9.01	11.31	40,002	9.77
14.03 - 15.31	54,500	9.37	14.42	—	—
17.13 - 19.81	29,000	9.50	17.89	—	—
$ 0.34 - 19.81	656,684	6.92	$ 8.93	140,180	$ 4.13

Note 7 - Shares Used in Earnings Per Share Calculations

	Year Ended March 31		
	1998	1997	1996
Weighted average common shares outstanding used in calculating basic net income per share	7,801,212	4,810,472	3,267,141
Weighted average options to purchase common stock as determined by application of the treasury stock method	360,118	226,840	101,958
Incremental shares for assumed conversion of convertible preferred stock	—	1,600,788	2,365,538
Employee Stock Purchase Plan equivalents	13,664	3,705	—
Shares used in computing diluted net income per share	8,174,994	6,641,805	5,734,637

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 and 1996 assume the conversion of all outstanding shares of the convertible preferred stock at the beginning of those years.

Note 8 - Pro Forma Earnings Per Share

The Company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its employee stock options because, as discussed below, the alternative fair value based accounting provided for under SFAS No. 123 "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. These valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Under APB No. 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's financial statements.

As the Company continues to follow APB Opinion No. 25, it presents pro forma information regarding net income and earnings per share as if the Company had accounted for its employee stock options and shares issued under the Employee Stock Purchase Plan (hereafter referred to as "options") granted subsequent to March 31, 1995 using the fair value methodology.

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	
	1998	1997	1996	1998	1997
Expected life (in years)	3.50 - 5.50	3.50 - 5.00	3.50	0.50	0.50
Risk-free interest rate	5.65 - 5.68%	6.45%	5.93%	5.54%	5.97%
Expected volatility	50.00%	50.00%	50.00%	50.00%	50.00%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%

The weighted average estimated fair value of employee stock options granted during 1998, 1997 and 1996 was $6.30, $3.55 and $.57 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 1998 and 1997 was $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. Because SFAS No. 123 is applicable only to options granted subsequent to March 31, 1995, the pro forma effect will not be fully reflected until the options granted in fiscal 1996 are fully vested in fiscal 2000. The Company's pro forma information for the years ended March 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Net income as reported	$ 5,287,000	$ 3,172,000	$ 1,633,000
Pro forma net income	4,489,000	3,016,000	1,615,000
Pro forma basic earnings per share	0.58	0.63	0.49
Pro forma diluted earnings per share	0.56	0.46	0.28

Note 9 - Income Taxes

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

	Year Ended March 31		
	1998	1997	1996
Current tax provision:			
Federal	$ 3,200,000	$ 1,954,000	$ 344,000
State	715,000	469,000	9,000
	3,915,000	2,423,000	353,000
Deferred tax provision:			
Federal	(683,000)	(563,000)	(310,000)
State	(128,000)	(158,000)	(93,000)
	(811,000)	(721,000)	(403,000)
Total provision (benefit) for income taxes	$ 3,104,000	$ 1,702,000	$ (50,000)

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

	March 31	
	1998	1997
Deferred tax assets:		
Warranty reserve	$ 738,000	$ 528,000
Inventory reserve	383,000	280,000
Accrued vacation	328,000	247,000
State income taxes	243,000	58,000
Other	377,000	145,000
Total deferred tax assets	$ 2,069,000	$ 1,258,000

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		
	1998	1997	1996
Tax expense at statutory rate	$ 2,853,000	$ 1,657,000	$ 538,000
State tax provision (benefit), net of federal benefit	388,000	205,000	(60,000)
Research tax credit	(179,000)	(181,000)	(480,000)
Other	42,000	21,000	(48,000)
	$ 3,104,000	$ 1,702,000	$ (50,000)

The Company's income tax benefit for the fiscal year ended March 31, 1996, was primarily attributable to the utilization of research and development credits generated in the period and the impact of a favorable United States Federal judicial decision which clarified the tax law related to the utilization of research and development credits generated from the Company's funded research and development.

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 1998, 1997 and 1996 amounted to $671,000, $553,000 and $444,000, 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 five years which expire between December 1998 and July 1999. Certain of the Company's facilities leases contain option provisions which allow for extension of the lease terms. Rent expense was $1,079,000, $793,000 and $608,000 in fiscal years 1998, 1997 and 1996, respectively.

Future minimum lease payments are as follows:

Year Ending March 31	
1999	$ 1,041,000
2000	177,000
	$ 1,218,000

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

In April 1998, the Company entered into a long-term agreement to lease a facility in Carlsbad, California which will house the Company's entire California based operations. The facility is expected to be completed in September 1999. The term of the lease is 10 years with two three-year option periods. The initial minimum lease payments are $2,300,000 per year.

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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, 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.

PRICE WATERHOUSE LLP

San Diego, California

May 13, 1998

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.

	High	Low
Fiscal 1997		
Third quarter [1]	$ 9.63	$ 8.38
Fourth quarter	12.25	8.75
Fiscal 1998		
First quarter	$ 16.13	$ 8.88
Second quarter	23.50	11.00
Third quarter	24.38	10.00
Fourth quarter	19.13	12.81

[1] Subsequent to December 3, 1996

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. In addition, an equipment financing agreement of the Company prohibits the payment of any cash dividends on the Company's capital stock. As of June 16, 1998, there were 294 holders of record of the Company's 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 Nash
Private Investor

Dr. Robert Johnson
Private Investor

James F. Bunker
President
Windsor Consulting Group

Officers

Mark D. Dankberg
Chairman of the Board
President and CEO

Gregory D. Monahan
Vice President, CFO and General Counsel

Robert L. Barrie
Vice President Operations

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

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 and Secretary

Andrew M. Paul
Vice President Business Development

Listing

ViaSat, Inc. is listed on the Nasdaq National Market under the trading symbol VSAT.

Independent Accountants

Price Waterhouse LLP
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 2, 1998
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:

Investor Relations
ViaSat
2290 Cosmos Court
Carlsbad, CA 92009
760-438-8099

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