

# ViaSat 2000

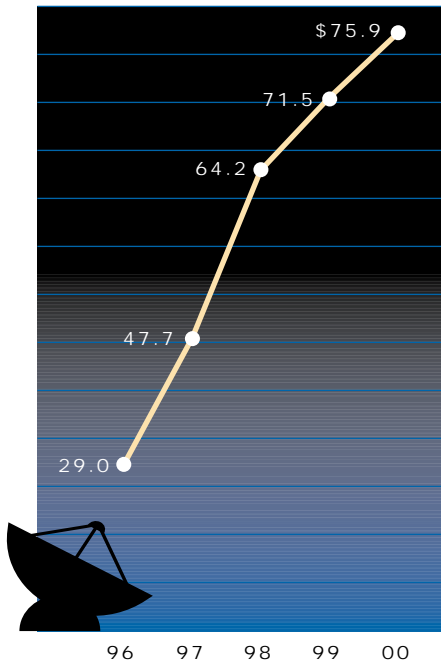
ENDLESS POSSIBILITIES IN COMMUNICATIONS





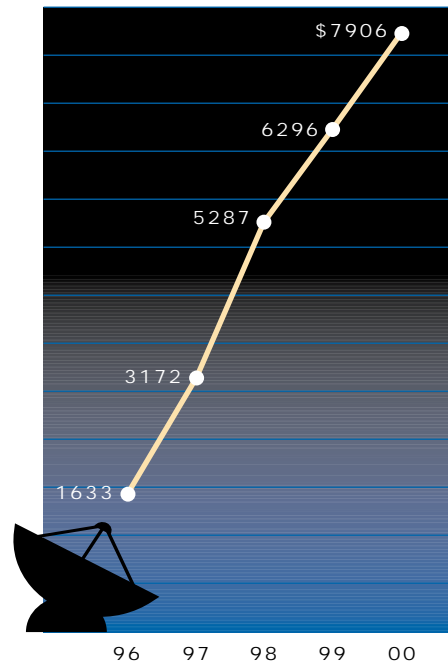
### Revenues

Dollars in Millions



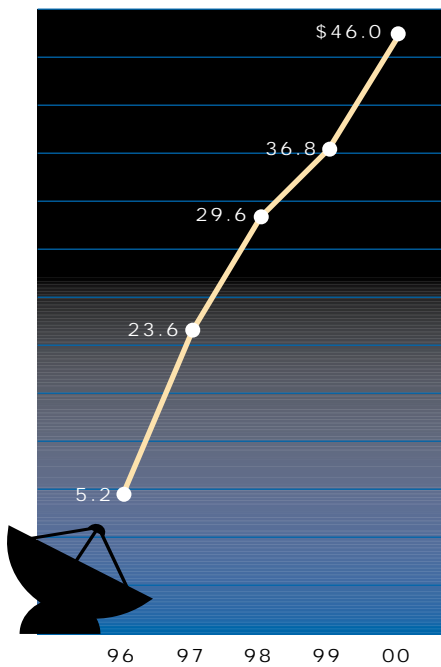
### Net Income

Dollars in Thousands

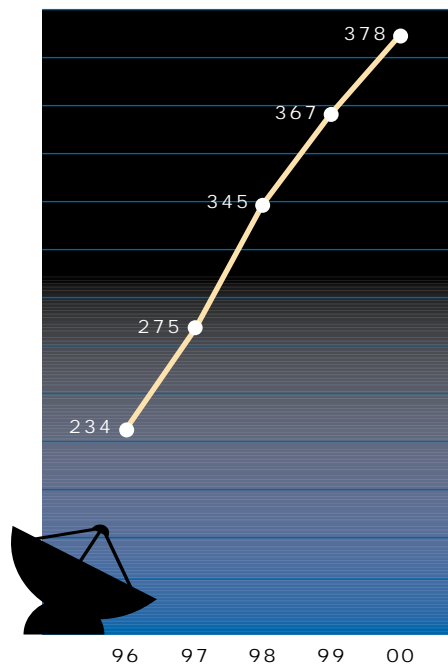


### Stockholders' Equity

Dollars in Millions



### Employee Growth



## dear fellow shareholders,

I'm pleased to report that fiscal year 2000 was a momentous one for ViaSat.

- We set company financial records for sales, earnings, and new orders.
- The StarWire commercial satellite networking portion of our business grew markedly - propelled by contracts for two-way broadband communications in maritime and energy applications.
- ViaSat's defense communications business won a decisive contract as one of only two US sources for a jam-resistant high speed data radio called MIDS (Multi-mission Information Distribution System). MIDS is already the largest defense program ever for us, with the potential for domestic and international production orders for years to come.
- We completed and occupied a

new 180,000 square foot campus in Carlsbad, CA., including facilities for engineering, manufacturing, satellite network services, and employee recreation.

- ViaSat was designated by Lockheed Martin as one of their four best "Star Suppliers" — out of a base of over 65,000 different suppliers and subcontractors.

We capped off the year by announcing an agreement to acquire Scientific Atlanta's satellite networks business. The acquisition, which was completed shortly after the end of fiscal 2000, establishes a substantial base of operations in the Atlanta, GA area and swings our business mix from mostly defense applications to primarily commercial.

Where does that position us? We believe we have the assets, business relationships, skills and resources to become a leading

provider of Internet Protocol (IP) driven broadband satellite ground equipment. We have the opportunity to participate in both commercial & defense markets.

Broadband networks of all types are expected to grow rapidly. Properly configured and positioned, we anticipate satellite broadband can capture a meaningful portion of specific market segments. We're orienting ViaSat to attain a significant share of the ground equipment market for satellite infrastructure gateways and for customer premises equipment. Our newly combined resources support a unique competitive position including:

- Engineering expertise to design, integrate and install the advanced, customized ground networking systems needed to bring new generations of spot beam broadband satellite services to market.
- A proven track record in both



defense and commercial markets.

- Capability to design & integrate large, sophisticated, high power gateway earth stations operating at Ka band frequencies.
- We are now the # 3 global provider of existing VSAT networks (Very Small Aperture Terminals) operating on commercial broadcast satellites.
- ViaSat has established a leading technology position in nascent 2-way broadband IP driven bandwidth on demand satellite networking.

- Our Atlanta operation manages worldwide relationships for VSAT sales, distribution & support.

- We've developed unique, patented technologies that enhance the efficiency and cost effectiveness of broadband satellite networks

The commercial satellite industry is evolving at a rapid pace. Obviously not all of the space-based initiatives are going to be successful. But, we believe there are very attractive growth opportunities for companies that

choose their targets carefully.

As always, I'd also like to take this opportunity to extend my sincere appreciation and gratitude to all of our employees for the commitment and dedication that has driven our company's growth. And, all of us at ViaSat express our thanks to our customers and shareholders for providing the opportunity to earn their confidence and support.



**Mark Dankberg**  
Chairman, CEO & President



ViaSat Management (left to right): Robert L. Barrie, Claude J. Hashem, Thomas M. Wittenschlaeger, Gregory D. Monahan, Mark D. Dankberg, Stephen W. Cable, Steven R. Hart, Richard A. Baldrige and Mark J. Miller



OPPORTUNITIES  
BROADBAND



Over the next three years at least six global or regional broadband by satellite systems are slated to come online. According to Pioneer consulting, a leading market research firm, there will be nearly 40 million users for satellite broadband worldwide by 2007. Bandwidth capacity and the user experience are two key issues in winning customers for these large-scale systems, and those are issues that ViaSat technologies address.

To bring affordable broadband to both the enterprise and to consumers alike, system capacity must be as great as possible so the service can be offered at a price point that users will accept. ViaSat patented techniques for

frequency reuse and spread spectrum multiple access help system operators, who invest hundreds of millions of dollars in a single satellite, squeeze as much out of those assets as possible.

In addition to capacity increases, ViaSat techniques are also geared towards enhancing the experience of users accessing these broadband systems. By smoothing timing issues related to accessing the bandwidth, subscribers should see less delay and quicker system response times.

As the broadband by satellite business plays out, we feel that companies choosing us as a partner will gain a significantly better chance of emerging as winners in this marketplace.

*“Bandwidth efficiency technologies are what we’ve built our niche market foundation on. We feel those same technologies will be the key to success as we approach much broader market opportunities as well.”*

**Steve Cable**  
**Vice President**  
**Broadband Systems**



A great example of how ViaSat helps customers keep pace with greater and greater needs for bandwidth is our project for Star Cruises, one of the five largest cruise lines in the world. Vessels at sea need high capacity data pipes as well. The management at Star Cruises needed a way to tap into closed circuit video

networks on its ships from its home port in Port Klang, Malaysia, while giving crews and passengers voice and data communications. Other satellite networks could offer only the industry standard 64,000 bits-per-second. Using a StarWire network, Star Cruises' growing fleet now has ship-to-shore and ship-to-ship broadband on-de-

mand for voice, data, and video. Immediately, Star Cruises doubled its bandwidth, with the potential to reach speeds up to 2 million bits-per-second. ViaSat was the one satellite network provider that was nimble enough to engineer and integrate this innovative extension of broadband to sea.



FOUNDATION  
STRENGTH



*“The acquisition has gone very well with ViaSat providing the commitment we need for growth and success. The energy level is way up and we are all very excited about the potential of this business.”*

Steve Estes  
Managing Director of  
Antennas and Gateway Systems for  
ViaSat Satellite Networks and  
a former Scientific-Atlanta employee



What did ViaSat gain in acquiring the Scientific-Atlanta Satellite Networks business? One answer is great customers such as Shoppers Drug Mart, Canada's largest drug store chain. Shoppers' management annually weighs satellite against terrestrial,

and continues to expand its satellite network year after year. Shoppers has used our newly acquired SkyRelay VSATs to build the largest VSAT network in Canada. The system connects nearly 800 stores to nine regional offices and three distribution centers. Traffic over

Originally focused on advanced defense satellite communications, ViaSat grew steadily and rapidly, even in an environment of shrinking defense budgets. To date we have achieved 14 consecutive years of internally generated revenue growth and 13 consecutive years of profitability

Now, with the acquisition of the Scientific-Atlanta Satellite Networks Business, we are taking a big step up to a new level, with a greater opportunity for growth from our commercial business.

the network is a multimedia mix of data, audio and video. During the day it processes credit or debit card orders, prescriptions, purchase orders and e-mail. By night the system transfers sales data, pricing updates, new software, and sale and special offer infor-

We've immediately gained a significant market presence that may have taken years to build on our own. The merger also brings us a number of new competitive tools:

- Over 300 highly skilled professionals in a very competitive employment market
- Stronger credentials to manage large commercial opportunities
- Strengthened management
- Deeper marketing, sales, and service capabilities worldwide

Together, ViaSat as a whole offers a breadth of products that we feel will enable us to build a foundation for continuing success. We can offer end-to-end satellite networks that extend the reach of virtually any communications application. And our defense technology such as MIDS, communication simulators, information security, and continued exploration of related communication technologies give us a diverse base to draw from for the future.

mation. Four digital audio channels pipe in music and advertising during store hours, including separate feeds to customize information for local and national advertisements, in both French and English.

The latest addition is an overlay, based on the Digital Video Broadcast standard, that adds economical video and audio, with a major boost in data speeds. The overlay gives each store nearly real-time access to information, in a combined IP data/ video feed of up to 4.2 million bits-per-second.



**G R O W T H**  
P O S I T I O N I N G

For both our defense and commercial businesses we see well-defined niches that can sustain our growth.

Success in commercial markets will become more and more important to our growth. For the first time we expect commercial revenues to outpace defense in the year ahead. The evolving role for our ViaSat Satellite Networks Division is to extend the reach of communication services that are traditionally carried by terrestrial networks to locations that are uneconomical with land-based networks. That extension can range from broadband IP data to low rate remote meter reading.

On the defense side we've seen consolidation creating a handful of multi-billion dollar prime contractors. This is creating opportunities for a second tier of smaller companies, which can either work as part of a team with the large companies, or become direct contractors as the government seeks to maintain competition among its suppliers. This niche is where we fit, and expect to continue to find new opportunities. The resulting sat-com business, the new Link-16/MIDS program, and future projects such as the KIV-21 network encryptor, fit this profile for revenue growth.

*“We are very focused on those areas where our technology position and favorable market conditions provide for unusual growth opportunities.”*

**Richard Baldrige,**  
Executive Vice President, COO and CFO



The ViaSat IP Crypto, now designated by the Pentagon as the KIV-21, is a product that could unlock surprising potential in the years to come.

The KIV-21 builds secure virtual private networks over public infrastructure for network traffic classified up to Top Secret. We believe it is a significant jump ahead of other network encryption

products of its type, providing support for modern protocols (such as multicast) and ease of management using ordinary Web browsers.

We've also demonstrated synergy between the KIV-21 and our commercial StarWire network equipment, possibly enabling a secure bandwidth-on-demand (BOD) version of StarWire.

The DoD is becoming more open to using commercial off-the-shelf satellite networks to address certain military communications challenges.

Just after the end of our fiscal year, the National Security Agency (NSA) certified the KIV-21, paving the way for sales of this product.



A fighter jet is shown from a low-angle perspective, flying over a desert landscape. The sky is a mix of orange, red, and blue, suggesting a sunset or sunrise. The jet is dark against the bright sky. The text 'PERFORMANCE' is written in yellow and 'COMPETENCE' in white, both in a bold, sans-serif font, across the middle of the image.

**PERFORMANCE**  
**COMPETENCE**

*“I don’t see our defense markets shrinking at all. They are going to present us with fantastic opportunities in the next few years.”*

Claude Hashem  
Vice President,  
General Manager  
Electronic Systems Group



In 1997, the U.S. Military decided to develop multiple, competitive sources for U.S. MIDS terminals, a data link terminal for aircraft, ships, and terrestrial platforms. ViaSat was considered a long-shot, to say the least. The competition included a partnership of incumbent U.S. suppliers, an international consortium, and another prime contractor far

larger than ViaSat. All the others chose to replicate the international consortium’s design. In what was viewed as a far more risky approach, ViaSat proposed a low-cost design based on more modern, commercial technology. Even with potentially big cost and performance benefits, ViaSat’s entry was viewed with some skepticism.

Though we’ve taken steps to increase our commercial business, we see continuing growth ahead for our defense business, as the government demands more sophisticated and complex communication systems.

The best example from the past fiscal year was the research and development potential in Link-16 technology turning into substantial orders. Aiming for a market estimated at more than \$1 billion, ViaSat first qualified as one of two U.S. suppliers, then landed its first production contract worth over \$30 million. Now final engineering and low-rate initial production is well under way on the Multifunctional



But based on the performance of our prototypes, and with the help of our key teammates - Harris Corp. and Northrop-Grumman - we beat the odds to emerge

Information Distribution System, Low Volume Terminal (MIDS LVT) for both United States Navy and Army procurements. Still on the horizon is the international market for MIDS terminals.

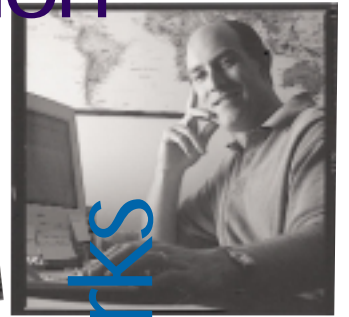
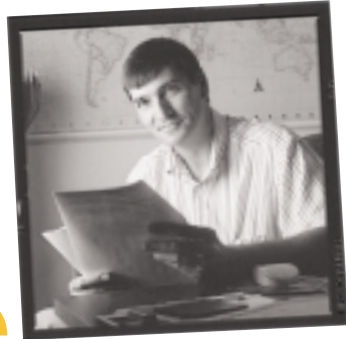
With more complex systems comes the need for more thorough testing, another niche we fill with our Simulation and Training systems.

And we continue to pursue business in military satellite communications, even beyond our market-share leading UHF DAMA products. During the past year we won a multimillion dollar award to build second generation UHF terminals, and another contract to be part of the team to engineer the Advanced Narrowband Concept / Mobile User Objective System, tomorrow’s new UHF satellite constellation.



# LEADERSHIP RESOURCES

information



defense



networks

transactions



communications

telephony





Our success stems from our ability to provide innovative wireless communication products and services that keep pace with customer demands and the rapid change in global telecommunication markets.



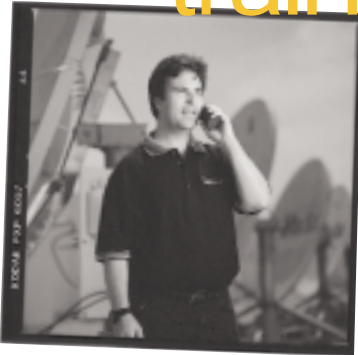
training



simulation



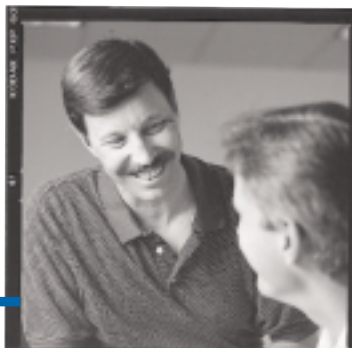
tracking



terminals



operations



encryption

**F I N A N C I A L S**

## SELECTED FINANCIAL DATA

The following table provides selected financial information for us for each of the fiscal years in the five-year period ended March 31, 2000. The data as of and for each of the fiscal years in the five-year period ended March 31, 2000 have been derived from our audited financial statements and include, in the opinion of our management, all adjustments necessary to present fairly the data for those periods. You should consider the financial statement data provided below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes which are included elsewhere in this annual report. All amounts shown are in thousands, except per share data.

	Years Ended March 31,				
	1996	1997	1998	1999	2000
<b>Statement of Income Data:</b>					
Revenues	\$ 29,017	\$ 47,715	\$ 64,197	\$ 71,509	\$ 75,880
Cost of revenues	<u>20,983</u>	<u>33,102</u>	<u>40,899</u>	<u>44,182</u>	<u>45,557</u>
Gross profit	8,034	14,613	23,298	27,327	30,323
Operating expenses:					
Selling, general and administrative	3,400	4,752	7,862	10,093	11,269
Independent research and development	<u>2,820</u>	<u>5,087</u>	<u>7,631</u>	<u>7,639</u>	<u>7,590</u>
Income from operations	1,814	4,774	7,805	9,595	11,464
Net interest income (expense)	<u>(231)</u>	<u>100</u>	<u>586</u>	<u>584</u>	<u>913</u>
Income before income taxes	1,583	4,874	8,391	10,179	12,377
Provision (benefit) for income taxes	<u>(50)</u>	<u>1,702</u>	<u>3,104</u>	<u>3,883</u>	<u>4,471</u>
Net income	<u>\$ 1,633</u>	<u>\$ 3,172</u>	<u>\$ 5,287</u>	<u>\$ 6,296</u>	<u>\$ 7,906</u>
Basic net income per share	<u>\$ 0.50</u>	<u>\$ 0.66</u>	<u>\$ 0.68</u>	<u>\$ 0.79</u>	<u>\$ 0.98</u>
Diluted net income per share	<u>\$ 0.28</u>	<u>\$ 0.48</u>	<u>\$ 0.65</u>	<u>\$ 0.77</u>	<u>\$ 0.91</u>
Shares used in computing basic net income per share	<u>3,267</u>	<u>4,810</u>	<u>7,801</u>	<u>7,977</u>	<u>8,097</u>
Shares used in computing diluted net income per share	<u>5,735</u>	<u>6,642</u>	<u>8,175</u>	<u>8,173</u>	<u>8,711</u>
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments	\$ 2,297	\$ 12,673	\$ 9,208	\$ 20,793	\$ 19,641
Working capital	4,651	20,406	24,276	31,298	38,169
Total assets	13,262	35,674	42,793	50,016	61,930
Notes payable, less current portion	1,747	1,428	1,544	1,243	336
Total stockholders' equity	5,217	23,619	29,610	36,847	45,997



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

ViaSat was incorporated in 1986 and completed its initial public offering in 1996. From 1992 to 2000, our total revenues increased at a compounded annual growth rate of approximately 44.5% through internal growth, and not through acquisitions. We have achieved 14 consecutive years of internally generated revenue growth and 13 consecutive years of profitability. Historically, our revenues have been primarily generated from contracts with the U.S. Department of Defense. Our revenues from U.S. Department of Defense applications have grown despite government budgetary constraints. Our commercial business grew from 5% of revenues in fiscal year 1999 to 24% of revenues in fiscal year 2000.

On April 25, 2000, we acquired the Satellite Networks Business, which will substantially increase our revenue and transform us into a predominantly commercial business.

Our revenue mix for fiscal year 2000 consisted of U.S. Department of Defense (71%), commercial customers (24%), and foreign military sales (5%). To date, our ability to grow and maintain our revenues has depended on obtaining additional sizable contract awards. It is difficult to predict the probability and timing of obtaining these awards. Generally, revenues are recognized as services are performed using the percentage of completion method, measured primarily by costs incurred to date compared with total estimated costs at completion or based on the number of units delivered. We provide for anticipated losses on contracts by charges to income during the period in which they are first identified.

Our products and services are provided primarily through three types of contracts: fixed-price, time-and-materials and cost-reimbursement contracts. Historically, approximately 72.8% for fiscal year 1998, 80.3% for fiscal year 1999, and 79.1% for fiscal year 2000, of our revenues were derived from fixed-price contracts which require us to provide products and services under a contract at a stipulated price. Our proportion of fixed-price contracts has continued to increase as our commercial business has grown and as government customers are

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

Historically, a significant portion of our revenues has been generated from funded research and development contracts. The research and development efforts are conducted in direct response to the specific requirements of a customer's order and, accordingly, expenditures related to such efforts are included in cost of sales when incurred and the related funding (which includes a profit component) is included in revenues. Revenues for our funded research and development were approximately \$25.6 million or 39.9% of our total revenues during fiscal year 1998, \$40.5 million or 56.6% of our total revenues during fiscal year 1999 and \$35.0 million or 46.2% of our total revenues during fiscal year 2000.

We invest in independent research and development, which is not directly funded by a third party. We expense independent research and development costs as they are incurred. Independent research and development expenses consist primarily of salaries and other personnel-related expenses, supplies and prototype materials related to research and development programs. Independent research and development expenses were approximately 11.9% of revenues during fiscal year 1998, 10.7% of revenues during fiscal year 1999, and 10.0% of revenues during fiscal year 2000. As a government contractor, we are able to recover a portion of our independent research and development expenses pursuant to our government contracts. The newly acquired Satellite Networks Business has relied heavily on self-financed research

and development, and we expect to decrease our proportion of funded research and development in future periods as a result of the acquisition.

## Results of Operations

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

	Years Ended March 31,		
	1998	1999	2000
Revenues	100.0%	100.0%	100.0%
Cost of revenues	63.7	61.8	60.0
Gross profit	36.3	38.2	40.0
<b>Operating expenses:</b>			
Selling, general and administrative	12.2	14.1	14.9
Independent research and development	11.9	10.7	10.0
Income from operations	12.2	13.4	15.1
Income before income taxes	13.1	14.2	16.3
Provision for income taxes	4.8	5.4	5.9
Net income	8.2	8.8	10.4

### FISCAL YEAR 2000 COMPARED TO FISCAL YEAR 1999

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

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

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 11.7% from \$10.1 million (14.1% of revenues) for fiscal year 1999 to

\$11.3 million (14.9% of revenues) for fiscal year 2000. The increase in selling, general and administrative expenses reflects increased expenditures relating to the marketing of commercial products, increased business development and bid and proposal expenses for defense programs, and additional administrative staffing. Selling, general and administrative expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Some selling, general and administrative expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

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

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

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

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

### FISCAL YEAR 1999 COMPARED TO FISCAL YEAR 1998

**Revenues.** Our revenues increased 11.4% from \$64.2 million in fiscal year 1998 to \$71.5 million in fiscal year 1999. This increase was primarily due to increases in revenues gen-

## MANAGEMENT'S DISCUSSION AND ANALYSIS continued

erated by government development and production programs. These increases were partially offset by a decrease in revenues related to our commercial business as we shifted our commercial focus from telephony applications to pursue larger commercial data network opportunities.

**Gross Profit.** Gross profit increased 17.3% from \$23.3 million (36.3% of revenues) in fiscal year 1998 to \$27.3 million (38.2% of revenues) in fiscal year 1999. The increase in gross profit was primarily the result of increased recovery of independent research and development expenditures and a mix of higher margin products in our sales for fiscal year 1999 relative to the prior year. In addition, some long-term contracts realized higher profits than initially expected. The increases were offset in part by a write-down of StarWire inventory to the lower of cost or market in connection with the shift in our commercial business strategy.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 28.4% from \$7.9 million (12.2% of revenues) in fiscal year 1998 to \$10.1 million (14.1% of revenues) in fiscal year 1999. We increased our business development and administrative staffing in support of both defense and commercial programs. Bid and proposal expenses increased from \$1.5 million in fiscal year 1998 to \$1.8 million in fiscal year 1999.

**Independent Research and Development.** Independent research and development expenses remained at \$7.6 million for both years, but decreased as a percentage of revenues from 11.9% of revenues in fiscal year 1998 to 10.7% of revenues in fiscal year 1999. The decrease as a percentage of sales resulted from the overall increase in sales.

**Interest Expense.** Interest expense increased 18.5% from \$211,000 in fiscal year 1998 to \$250,000 in fiscal year 1999. Interest expense relates to loans for the purchase of capital equipment. Total outstanding equipment loans were \$2.6 million at March 31, 1998 and \$2.5 million at March 31, 1999.

**Interest Income.** Interest income increased 4.6% from \$797,000 in fiscal year 1998 to \$834,000 in fiscal year 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 year 1998 to \$102,000 in fiscal year 1999.

**Provision for Income Taxes.** Our effective income tax rate increased from 37% in fiscal year 1998 to 38% in fiscal year 1999. Our effective income tax rate increased due to expected limitations on our research and development tax credits.

### Backlog

We had firm backlog of \$44.9 million at March 31, 1999, of which \$36.8 million was funded, not including options of \$45.2 million. As of March 31, 2000, we had firm backlog of \$88.2 million, of which \$58.6 million was funded. Of the \$88.2 million in firm backlog at March 31, 2000, approximately \$43.0 million is expected to be delivered in fiscal year 2001, approximately \$29.6 million is expected to be delivered in fiscal year 2002 and the balance is expected to be delivered in fiscal year 2003 and thereafter. The increase in backlog results from growth in total awards for both commercial and defense products from \$43.7 million for fiscal year 1999 to \$119.3 million for fiscal year 2000. We include in our backlog only those orders for which we have accepted purchase orders. Our firm backlog does not include contract options of \$53.3 million. These options include \$44.6 million of Indefinite Delivery/Indefinite Quantity (IDIQ) contracts for our UHF DAMA satellite communications products and \$6.6 million of IDIQ contracts for our other products.

Backlog is not necessarily indicative of future sales. A majority of our backlog from U.S. military contracts scheduled for delivery can be terminated at the convenience of the government since orders are often made substantially in advance of delivery, and our contracts typically provide that orders may be terminated with limited or no penalties. In addition, purchase orders may present product specifications that would require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related purchase order.

The backlog amounts as presented are comprised of funded and unfunded components. Funded backlog represents the sum of contract amounts for which funds have been specifi-



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

### **Liquidity and Capital Resources**

We have financed our operations to date primarily with cash flows from operations, bank line of credit financing, equity financing and loans for the purchase of capital equipment. Cash provided by operating activities was \$3.7 million and \$13.3 million for fiscal year 2000 and fiscal year 1999, respectively. The relative decrease in cash provided from operating activities for fiscal year 2000 compared to the prior year was primarily due to an increase in accounts receivable. The increase in accounts receivable resulted from the high volume of sales in the fourth quarter of fiscal year 2000, and the timing of milestone billings on certain defense contracts. Days sales outstanding were higher during fiscal year 2000 due in part to delays in payments on some government contracts. The payments were delayed due to processing delays at the government paying offices, but have since been paid.

Cash provided from investing activities in fiscal year 2000 was \$9.8 million as compared to cash used in investing activities for the fiscal year 1999 of \$11.4 million. During fiscal year 2000, \$14.7 million in short-term investments matured and were reinvested into investments classified as cash equivalents. This was offset in part by \$4.8 million of purchases of property and equipment in fiscal year 2000, primarily consisting of test equipment and computers.

Cash provided by financing activities for fiscal years 2000 and 1999 was \$25,000 and \$799,000, respectively. This decrease was primarily the result of reduced borrowings for equipment financing, offset in part by increased proceeds from common stock.

At March 31, 1999, we 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 consisted of equipment financing. At March 31, 2000, we had \$19.6 million in cash, cash equivalents and short-term investments, \$38.2 million in working capital and \$1.2 million in equipment financing. We had no outstanding borrowings under our line of credit at March 31, 2000.

We received a commitment from Union Bank of California and Washington Mutual Bank to provide a total credit facility of \$50.0 million for the acquisition of the Satellite Networks Business. This facility also provided for a secured revolving credit facility of \$25 million for general working capital. We did not use the acquisition financing and are now in the process of negotiating the terms of the \$25 million revolving line of credit facility.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS** continued

**Summarized Quarterly Data (Unaudited)**

The following financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for the fair statement of the results for the interim periods. Summarized quarterly data for fiscal years 1999 and 2000 are as follows (in thousands, except per share data):

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
<b>1999</b>				
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
<b>2000</b>				
Revenues	\$ 17,035	\$ 17,017	\$ 18,041	\$ 23,787
Gross profit	7,326	7,459	7,548	7,990
Income from operations	2,788	2,736	2,616	3,324
Net income	1,805	1,804	2,007	2,290
Basic net income per share	0.22	0.22	0.25	0.28
Diluted net income per share	0.22	0.22	0.23	0.26

## BALANCE SHEET

	March 31,	
	<u>1999</u>	<u>2000</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,005,000	\$ 19,520,000
Short-term investments	14,788,000	121,000
Accounts receivable	16,176,000	26,268,000
Inventory	2,525,000	3,122,000
Deferred income taxes	2,358,000	1,813,000
Other current assets	446,000	2,167,000
Total current assets	<u>42,298,000</u>	<u>53,011,000</u>
Property and equipment, net	6,630,000	8,164,000
Other assets	1,088,000	755,000
Total assets	<u>\$ 50,016,000</u>	<u>\$ 61,930,000</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,754,000	\$ 8,934,000
Accrued liabilities	6,027,000	5,001,000
Current portion of notes payable	1,219,000	907,000
Total current liabilities	<u>11,000,000</u>	<u>14,842,000</u>
Notes payable	1,243,000	336,000
Other liabilities	926,000	755,000
Total long-term liabilities	<u>2,169,000</u>	<u>1,091,000</u>
Commitments and contingencies (Notes 10 & 11)		
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 2000, respectively		
Common stock, \$.0001 par value, 25,000,000 shares authorized; 8,034,203 and 8,196,604 shares issued and outstanding at March 31, 1999 and 2000, respectively	1,000	1,000
Paid in capital	17,689,000	18,933,000
Retained earnings	19,157,000	27,063,000
Total stockholders' equity	<u>36,847,000</u>	<u>45,997,000</u>
Total liabilities and stockholders' equity	<u>\$ 50,016,000</u>	<u>\$ 61,930,000</u>

See accompanying notes to financial statements.



## STATEMENT OF INCOME

	Year Ended March 31,		
	1998	1999	2000
Revenues	\$ 64,197,000	\$ 71,509,000	\$ 75,880,000
Cost of revenues	<u>40,899,000</u>	<u>44,182,000</u>	<u>45,557,000</u>
Gross profit	23,298,000	27,327,000	30,323,000
Operating expenses:			
Selling, general and administrative	7,862,000	10,093,000	11,269,000
Independent research and development	<u>7,631,000</u>	<u>7,639,000</u>	<u>7,590,000</u>
Income from operations	7,805,000	9,595,000	11,464,000
Other income (expense):			
Interest income	797,000	834,000	1,070,000
Interest expense	<u>(211,000)</u>	<u>(250,000)</u>	<u>(157,000)</u>
Income before income taxes	8,391,000	10,179,000	12,377,000
Provision for income taxes	<u>3,104,000</u>	<u>3,883,000</u>	<u>4,471,000</u>
Net income	<u>\$ 5,287,000</u>	<u>\$ 6,296,000</u>	<u>\$ 7,906,000</u>
Basic net income per share	<u>\$ 0.68</u>	<u>\$ 0.79</u>	<u>\$ 0.98</u>
Diluted net income per share	<u>\$ 0.65</u>	<u>\$ 0.77</u>	<u>\$ 0.91</u>
Shares used in computing basic net income per share	<u>7,801,212</u>	<u>7,976,848</u>	<u>8,096,500</u>
Shares used in computing diluted net income per share	<u>8,174,994</u>	<u>8,172,660</u>	<u>8,711,222</u>

See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS

	Year Ended March 31,		
	1998	1999	2000
<b>Cash flows from operating activities:</b>			
Net income	\$ 5,287,000	\$ 6,296,000	\$ 7,906,000
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>			
Depreciation	2,182,000	2,853,000	3,292,000
Deferred income taxes	(811,000)	(1,082,000)	843,000
<b>Increase (decrease) in cash resulting from changes in:</b>			
Accounts receivable	(8,741,000)	2,880,000	(10,092,000)
Inventory	(209,000)	2,162,000	(597,000)
Other assets	1,078,000	46,000	(1,686,000)
Accounts payable	(289,000)	(801,000)	5,180,000
Accrued liabilities	1,318,000	940,000	(1,026,000)
Other liabilities	58,000	(11,000)	(171,000)
Net cash provided by (used in) operating activities	<u>(127,000)</u>	<u>13,283,000</u>	<u>3,649,000</u>
<b>Cash flows from investing activities:</b>			
Purchases of short-term investments, net	(5,918,000)	(8,870,000)	14,667,000
Purchases of property and equipment	(4,083,000)	(2,497,000)	(4,826,000)
Net cash provided by (used in) investing activities	<u>(10,001,000)</u>	<u>(11,367,000)</u>	<u>9,841,000</u>
<b>Cash flows from financing activities:</b>			
Tax benefit from exercise of stock options	—	82,000	68,000
Proceeds from issuance of notes payable	1,448,000	1,092,000	—
Repayment of notes payable	(1,407,000)	(1,234,000)	(1,219,000)
Proceeds from issuance of common stock	704,000	859,000	1,176,000
Net cash provided by financing activities	<u>745,000</u>	<u>799,000</u>	<u>25,000</u>
Net increase (decrease) in cash and cash equivalents	(9,383,000)	2,715,000	13,515,000
Cash and cash equivalents at beginning of year	12,673,000	3,290,000	6,005,000
Cash and cash equivalents at end of year	<u>\$ 3,290,000</u>	<u>\$ 6,005,000</u>	<u>\$ 19,520,000</u>
<b>Supplemental information:</b>			
Cash paid for interest	<u>\$ 211,000</u>	<u>\$ 250,000</u>	<u>\$ 157,000</u>
Cash paid for income taxes	<u>\$ 3,857,000</u>	<u>\$ 4,263,000</u>	<u>\$ 4,349,000</u>

See accompanying notes to financial statements.

## STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Paid In Capital	Stockholders' Notes Receivable	Retained Earnings
	Number of Shares	Amount			
Balance at March 31, 1997	7,742,273	\$ 1,000	\$ 16,124,000	\$ (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	7,920,638	1,000	16,748,000	—	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	8,034,203	1,000	17,689,000	—	19,157,000
Tax benefit from exercise of stock options			68,000		
Exercise of stock options	114,224		681,000		
Issuance for Employee Stock Purchase Plan	48,177		495,000		
Net income					7,906,000
Balance at March 31, 2000	<u>8,196,604</u>	<u>\$ 1,000</u>	<u>\$ 18,933,000</u>	<u>—</u>	<u>\$ 27,063,000</u>

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.

**Short-term Investments** At March 31, 1999 and 2000, the Company held investments in investment grade debt securities with various maturities. Management determines the appropriate classification of its investments in debt securities at the time of purchase and has designated all of its investments as held to maturity. The Company's investments in these securities as of March 31, 1999 and 2000 totaled \$18,686,000 and \$16,769,000, respectively. The Company has included \$3,898,000 and \$16,648,000 of these securities in cash and cash equivalents as of March 31, 1999 and 2000, respectively, as they have original maturities of less than 90 days. The remaining \$14,788,000 and \$121,000 as of March 31, 1999 and 2000, respectively, have been classified as short-term investments.

**Revenue Recognition** The majority of the Company's revenues are derived from services performed under a variety of contracts including cost-plus-fixed fee, fixed-price, and time and materials contracts. Revenues from the United States Government Department of Defense and its prime contractors amounted to \$58,249,000, \$65,478,000 and \$53,859,000 for the years ended March 31, 1998, 1999 and 2000, respectively. Revenues from commercial customers amounted to \$5,941,000, \$3,836,000, and \$18,409,000 for the years ended March 31, 1998, 1999 and 2000 respectively. Revenues to customers in foreign countries are not significant. The Company's five largest contracts (by revenues) generated approximately 65%, 61% and 35% of the Company's total revenues for the fiscal year ended March 31, 1998, 1999 and 2000, 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 an-

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 Risk** Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, short-term investments, and trade accounts receivable which are generally not collateralized. The Company limits its exposure to credit loss by placing its cash equivalents and short-term investments with high credit quality financial institutions and investing in high quality short-term debt instruments. Concentrations of credit risk with respect to receivables are generally limited because the Company performs ongoing credit evaluations. The Company also maintains reserves for potential credit losses, which it considers adequate to cover such losses.

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

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

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

Software 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, 2000, no significant amounts were incurred 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 three to seven years using the straight-line method. Additions to property and equipment together with major renewals and betterments are capitalized. Maintenance, repairs and minor renewals and betterments are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized.

## NOTES TO FINANCIAL STATEMENTS *continued*

**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 and for the expected future tax benefit to be derived from tax credit and loss carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred income tax expense (benefit) is the net change during the year in the deferred income tax asset or liability.

**Stock 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, 2000, 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, 2000, 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.

**Segment Reporting** Operating segments are determined consistent

with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company operates in one segment.

### Note 2: Composition of Certain Balance Sheet Captions

	March 31,	
	1999	2000
Cash and cash equivalents:		
Investments in debt securities	\$ 3,898,000	\$ 16,648,000
Cash	2,107,000	2,872,000
	<u>\$ 6,005,000</u>	<u>\$ 19,520,000</u>
Accounts receivable:		
Billed	\$ 7,765,000	\$ 13,031,000
Unbilled	8,411,000	13,237,000
	<u>\$ 16,176,000</u>	<u>\$ 26,268,000</u>
Inventory:		
Raw materials	\$ 914,000	\$ 2,263,000
Work in process	1,157,000	484,000
Finished goods	454,000	375,000
	<u>\$ 2,525,000</u>	<u>\$ 3,122,000</u>
Property and equipment:		
Machinery and equipment	\$ 9,249,000	\$ 11,602,000
Computer equipment	4,179,000	5,642,000
Furniture and fixtures	326,000	877,000
	13,754,000	18,121,000
Less accumulated depreciation	(7,124,000)	(9,957,000)
	<u>\$ 6,630,000</u>	<u>\$ 8,164,000</u>
Accrued liabilities:		
Current portion of warranty reserve	\$ 1,440,000	\$ 799,000
Accrued vacation	1,143,000	1,188,000
Accrued bonus	1,195,000	1,004,000
Accrued 401(k) matching contribution	791,000	917,000
Income taxes payable	694,000	—
Collections in excess of revenues	527,000	694,000
Other	237,000	399,000
	<u>\$ 6,027,000</u>	<u>\$ 5,001,000</u>

### Note 3: 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 has received a commitment from Union Bank of California and Washington Mutual Bank to provide a secured revolving credit facility of \$25 million for general working capital. ViaSat is in the process of negotiating the terms of this commitment.

### Note 4: Notes Payable

	March 31,	
	1999	2000
Bank installment loans, with various maturity dates through September 2001, total monthly payments of \$86,000 with interest rates ranging between 8% and 9%, collateralized by equipment	\$ 2,462,000	\$ 1,243,000
Less current portion (1,219,000)	(907,000)	
	<u>\$ 1,243,000</u>	<u>\$ 336,000</u>

Principal maturities of notes payable as of March 31, 2000 are summarized as follows:

Year Ending March 31	
2001	907,000
2002	<u>336,000</u>
	<u>\$ 1,243,000</u>

### Note 5: 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 non-qualified 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, 2000, the Company had granted options to purchase 1,194,250 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 500,000 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, 2000, the Company has issued 153,353 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, 1997	527,018	\$ .34 - 10.75
Options granted	269,450	12.25 - 19.81
Options canceled	(13,511)	.48 - 12.75
Options exercised	<u>(126,273)</u>	.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	<u>(60,480)</u>	.34 - 14.13
Outstanding at March 31, 1999	810,296	.48 - 19.81
Options granted	425,800	8.50 - 87.63
Options canceled	(32,471)	4.09 - 15.53
Options exercised	<u>(114,224)</u>	.48 - 19.81
Outstanding at March 31, 2000	<u>1,089,401</u>	\$ 1.36 - 87.63



## NOTES TO FINANCIAL STATEMENTS continued

The following table summarizes all options outstanding and exercisable by price range as of March 31, 2000:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life-Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.36 - 8.50	225,040	3.57	\$ 5.70	114,380	\$ 3.41
9.00 - 11.72	282,300	8.29	10.80	79,204	10.00
12.25 - 15.13	193,375	7.14	13.36	90,027	13.10
15.25 - 16.13	195,286	8.03	15.55	42,648	15.53
16.41 - 52.31	183,400	7.48	42.44	15,168	17.07
71.25 - 87.63	10,000	5.42	81.22	0	0.00
\$ 1.36 - 87.63	<u>1,089,401</u>	6.90	17.03	<u>341,427</u>	9.61

### Note 6: Shares Used in Earnings Per Share Calculations

	Year Ended March 31,		
	1999	1998	2000
Weighted average common shares outstanding used in calculating basic net income per share	7,801,212	7,976,848	8,096,500
Weighted average options to purchase common stock as determined by application of the treasury stock method	360,118	185,452	611,585
Employee Stock Purchase Plan equivalents	<u>13,664</u>	<u>10,360</u>	<u>3,137</u>
Shares used in computing diluted net income per share	<u>8,174,994</u>	<u>8,172,660</u>	<u>8,711,222</u>

Antidilutive shares excluded from the calculation were 18,493, 420,735, and 30,420 shares for the fiscal years ended March 31, 1998, 1999, and 2000 respectively.

### Note 7: Pro Forma Earnings Per Share

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

	Employee Stock Options			Employee Stock Purchase Plan		
	1998	1999	2000	1998	1999	2000
Expected life (in years)	3.50 - 5.50	3.50 - 5.00	4.99 - 5.00	0.50	0.50	0.50
Risk-free interest rate	5.65 - 5.68%	4.46 - 5.42%	5.69%	5.54%	5.66 - 6.22%	5.55%
Expected volatility	50.00%	50.00%	71.00%	50.00%	50.00%	71.00%
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 1998, 1999, and 2000 was \$6.30, \$6.27, and \$16.61 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 1998, 1999 and 2000 was \$4.00, \$4.00 and \$5.43 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, 1998, 1999 and 2000 are as follows:

	1998	1999	2000
Net income as reported	\$ 5,287,000	\$ 6,296,000	\$ 7,906,000
Pro forma net income	4,489,000	5,157,000	5,974,000
Pro forma basic earnings per share	0.58	0.65	0.74
Pro forma diluted earnings per share	0.56	0.65	0.70

#### Note 8: Income Taxes

The provision for income taxes includes the following:

	Year Ended March 31,		
	1998	1999	2000
Current tax provision			
Federal	\$ 3,200,000	\$ 3,977,000	\$ 2,947,000
State	715,000	988,000	681,000
	<u>3,915,000</u>	<u>4,965,000</u>	<u>3,628,000</u>
Deferred tax (benefit) provision			
Federal	(683,000)	(863,000)	680,000
State	(128,000)	(219,000)	163,000
	<u>(811,000)</u>	<u>(1,082,000)</u>	<u>843,000</u>
Total provision for income taxes	<u>\$ 3,104,000</u>	<u>\$ 3,883,000</u>	<u>\$ 4,471,000</u>

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

	March 31,	
	1999	2000
Deferred tax assets:		
Warranty reserve	\$ 706,000	\$ 418,000
Inventory	1,377,000	820,000
Accrued vacation	396,000	374,000
State income taxes	335,000	231,000
Depreciation	186,000	307,000
Other	151,000	158,000
Total deferred tax assets	<u>\$ 3,151,000</u>	<u>\$ 2,308,000</u>

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

	Year Ended March 31,		
	1998	1999	2000
Tax expense at statutory rate	\$ 2,853,000	\$ 3,461,000	\$ 4,208,000
State tax provision, net of federal benefit	388,000	507,000	558,000
Research tax credit	(179,000)	(67,000)	(240,000)
Other	42,000	(18,000)	(55,000)
	<u>\$ 3,104,000</u>	<u>\$ 3,883,000</u>	<u>\$ 4,471,000</u>

#### Note 9: Employee Benefits

The Company has a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code. The Company may make discretionary contributions to the plan which vest equally over six years. Employees who have completed 90 days of service and are at least 21 years of age are eligible to participate in the plan. Participants are entitled, upon termination or retirement, to their vested portion of the plan assets which are held by an independent trustee. Discretionary contributions accrued by the Company during fiscal years 1998, 1999 and 2000 amounted to \$671,000, \$791,000 and \$917,000, respectively. The cost of administering the plan is not significant.

#### Note 10: Commitments

The Company leases office facilities under noncancelable operating leases with initial terms ranging from one to ten years which expire between June 2002 and December 2009. Certain of the Company's facilities leases contain option provisions which allow for extension of the lease terms. Rent expense, which is recognized on a straight-line basis, was \$1,079,000, \$1,312,000 and \$1,939,000 in fiscal years 1998, 1999 and 2000, respectively.

Future minimum lease payments are as follows:

Year Ending March 31	
2001	\$ 2,422,000
2002	2,390,000
2003	2,380,000
2004	2,380,000
2005	2,380,000
Thereafter	<u>11,106,000</u>
	<u>\$ 23,058,000</u>

#### Note 11: 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, re-

## NOTES TO FINANCIAL STATEMENTS *continued*

cover 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 12: Subsequent Event

On April 24, 2000, the Company completed a secondary stock offering for the sale of 2,612,075 shares of common stock for net proceeds of approximately \$73,000,000.

On April, 25, 2000, the Company completed the acquisition of the satellite networks business (the "Satellite Networks Business") of Scientific-Atlanta, Inc. for an aggregate purchase price of approximately \$59,000,000 in cash (including post-closing adjustments), plus warrants to purchase 50,000 shares of common stock valued at approximately \$1,215,000.

The Satellite Networks Business is a significant DAMA-based VSAT supplier with additional product lines addressing the non-DAMA VSAT market, the gateway market, the asset tracking and meter reading market, and the telemetry and antenna systems market. In addition, the Satellite Networks Business brings the Company a larger and more experienced commercial sales force, a significant customer base, additional research and development, and engineering capabilities. The Company has moved the headquarters of our commercial business to the Satellite Networks Business facilities in Norcross, Georgia.

The acquisition will be accounted for by the purchase method of accounting as defined in APB Opinion No. 16. Under purchase accounting, the total purchase price will be allocated to the tangible and intangible assets and liabilities of the Satellite Networks Business based on valuations and other studies which are not yet available. We have not made a final determination as to the value of the Satellite Networks Business's in-process research and development, if any. To the extent that a portion of the purchase price would be allocated to in-process research and development, generally accepted accounting principles would require that this amount be written off as a one-time charge to operations. Consequently, the amounts reflected in the pro forma financial statements are subject to change, and the final amounts may differ significantly.

The following unaudited pro forma condensed combined financial information give effect to the acquisition as of April 1, 1999. Because the Satellite Networks Business has been operated as a division of Scientific-Atlanta, its results may not reflect those that would have resulted had it op-

erated as an independent or as a part of ViaSat. The pro forma information does not reflect (1) the effects of the anticipated post-acquisition cost savings or restructuring efficiencies or (2) any interest income attributable to the net cash proceeds of this offering not utilized for the acquisition. When reviewing the following pro forma information, you should note that:

■ The pro forma condensed combined financial information combines ViaSat's income statement for its fiscal year ended March 31, 2000 with the Satellite Network Business' unaudited income statement for the 12 months ended March 31, 2000.

	Year Ended March 31, 2000
Revenues	\$ 162,280,000
Net Income	\$ 1,270,000
Earnings per share	
Basic	\$ .12
Diluted	\$ .11
Weighted average number of shares*	
Basic	10,708,575
Diluted	11,323,297

\*The weighted average number of shares include the 2,612,075 shares issued in the secondary stock offering.

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

### Note 13: Subsequent Event (unaudited)

In August 2000, the Board of Directors approved a 2-for-1 split of our common stock. The following table shows financial information adjusted to reflect the stock split, as if the split had taken place prior to March 31, 2000.

	Year Ended March 31,		
	1998	1999	2000
Net Income	\$ 5,287,000	\$ 6,296,000	\$ 7,906,000
Earnings per share			
Basic	\$ .34	\$ .39	\$ .49
Diluted	\$ .32	\$ .39	\$ .45
Weighted average number of shares			
Basic	15,602,424	15,953,696	16,193,000
Diluted	16,349,998	16,345,320	17,422,444

## 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 2000, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States. 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 auditing standards generally accepted in the United States 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 16, 2000



## MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "VSAT." The following table sets forth the range of high and low sales prices on the Nasdaq National Market of our 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 1999	High	Low
First Quarter	\$ 20.38	\$ 13.38
Second Quarter	20.13	8.25
Third Quarter	13.00	7.00
Fourth Quarter	13.00	8.75
Fiscal 2000	High	Low
First Quarter	\$ 15.75	\$ 7.81
Second Quarter	22.25	13.31
Third Quarter	55.50	18.06
Fourth Quarter	105.00	43.00

To date, we have neither declared nor paid any dividends on the common stock. We currently intend to retain all future earnings, if any, for use in the operation and development of our business and, therefore, do not expect to declare or pay any cash dividends on the common stock in the foreseeable future. As of June 21, 2000, there were 269 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 and CEO, Video Networks 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*

**Richard A. Baldridge**  
*Executive Vice President, COO and CFO*

**Gregory D. Monahan**  
*Vice President, General Counsel and Secretary*

**Robert L. Barrie**  
*Vice President, Operations*

**Thomas M. Wittenschlaeger**  
*Sr. Vice President and General Manager, Satellite Networks*

**Claude J. Hashem**  
*Vice President and General Manager, Communications Systems*

**James P. Collins**  
*Vice President, Business Development, Communications Systems*

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

**Mark J. Miller**  
*Vice President, Chief Technical Officer*

**Stephen W. Cable**  
*Vice President, Broadband Systems*

### LISTING

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

### INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers 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

Computershare Investor Services  
515 South Figueroa, Suite 1020  
Los Angeles, CA 90071

### ANNUAL MEETING

Tuesday, September 26, 2000  
ViaSat Inc., Carlsbad

### 10-K

A copy of ViaSat's form 10-K filed with the Securities and Exchange Commission will be made available to all stockholders at no charge. The 10-K can be accessed on the World Wide Web as well, at the SEC Edgar site (<http://www.sec.gov/cgi-bin/srch-edgar>) or through the ViaSat Web site ([www.viasat.com](http://www.viasat.com)) from the Investor Relations page.

To receive a copy by mail, please contact:

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The Carlsbad Group



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