ViaSat®

Building on 10 years of success in global satellite communications.

1997 ANNUAL REPORT

Financial Highlights

(In millions, except per share data)	**1997**	1996
Revenues	**$ 47.7**	$ 29.0
Net income	**3.2**	1.6
Pro forma earnings per share	**0.47**	0.28
Total assets	**35.7**	13.3
Current portion of notes payable	**1.1**	.8
Long-term debt	**1.4**	1.7
Working capital	**20.4**	4.7
Stockholders' equity	**23.6**	5.2
Backlog	**78.4**	28.7

Certain statements in this Annual Report that are not historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results of the Company to be materially different from historical results or from any results expressed or implied by such forward-looking statements. These factors are discussed under the caption "Risk Factors" in the Company's annual report on Form 10-K for the year ended March 31, 1997.

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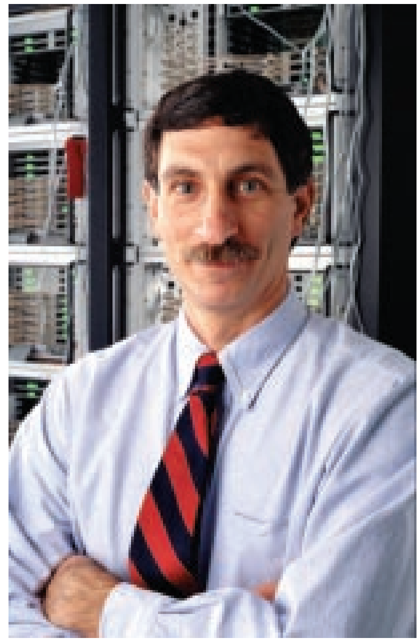
"Building on 10 Years of Success in Global Satellite Communications"

Our theme for this annual report communicates three key messages about ViaSat. The first is that, though we are a new public company, we have a 10-year track record of growth and success in our markets. Second is that, while many are talking about the promise of new global satellite communications, we have been helping to build the world's largest satellite DAMA network for the U.S. Department of Defense. And finally, we are building on this sound foundation by investing in new commercial products that leverage our expertise in digital communications.

To Our Shareholders:



Welcome to our first annual report as a publicly traded corporation. Fiscal 1997 was a banner year for ViaSat on a number of fronts. We believe our IPO signals a transition from a privately-held networking technology boutique into an aggressive supplier of some of the world's most advanced satellite networking systems. The core of our business continues to be our Demand Assigned Multiple Access (DAMA) networking. DAMA is a software technology that leverages scarce wireless resources by efficiently metering bandwidth "on demand" for voice, fax, data, e-mail, Internet access or other digital transmission services. With wireless spectrum auctions vividly illustrating the dollar value of bandwidth, there has never been a greater opportunity to build on this technology than there is now.

• Our Best Financial Year

Financially this was our best year ever. Sales grew to $47.7 million, an increase of over 60% compared to FY96. Net income doubled to $3.2 million, compared to $1.6 million in the prior year. We are especially pleased that we were able to meet our financial goals while still investing in new commercial and government products at a record pace. We also earned new contract awards totaling $100 million, including $24.9 million in negotiated options. This includes a number of multi-year contracts and provides a solid foundation entering the current fiscal year.

During this past year we completed engineering development and installation of two UHF (Ultra High Frequency) DAMA Satellite Network Control Terminals for the U.S. Air Force. Installation of the network control and management facilities clears the way for deployment of UHF DAMA subscriber terminals. This was the single largest project ever undertaken by our company. It's also the first successful U.S. government deployment of fully automatic DAMA satellite network control for airborne and special operations forces. Our timely completion of this very challenging project was a major milestone not only for us, but for the U.S. Air Force as well. The DAMA network substantially improves rapid, secure, global connectivity to our country's most advanced, front-line defense units.

Over the same time period we delivered almost 2000 UHF DAMA subscriber satellite modems to Hughes Defense Communications under the AN/PSC-5 "Spitfire" manpack contract. ViaSat is now the leading producer of UHF DAMA subscriber equipment. During the year, we received the complete set of U.S. government DAMA product "certifications". As of now, ViaSat is the only manufacturer with fully certified DAMA products. Our leadership position in the U.S. defense market has created international opportunities for defense satellite communications with allies over seas.

• Broadening Applications

We also pushed ahead in other defense-related areas. We developed a "PCMCIA" (PC card) version of our government standard packet data processor. This credit card sized product moves the company into new levels of integration for military satellite networking. Plus, we developed networking software that extends TCP/IP (Internet Protocol) access to the interference-prone tactical UHF satellite environment. We are exploring several ways to broaden government and industrial applications of these products.

The company received important new orders in our communication signal simulation product line. A development program for a new form of Department of Defense (DoD) network encryption successfully earned critical government information security endorsements. We also received seed R&D concept orders in several new technology areas.

• Commercial Growth

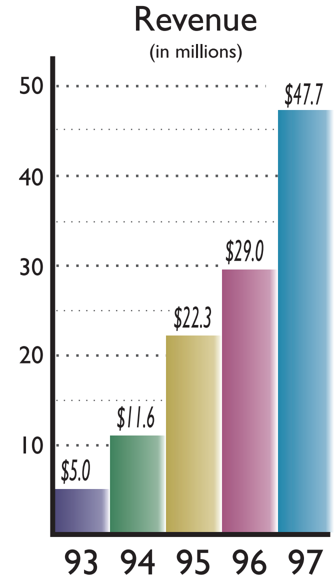
While our total commercial business is in its infancy, we made substantial progress in the past fiscal year. We established important customer relationships and contracts with Hutchison Corporate Access, (a division of Hutchison Whampoa, Ltd of Hong Kong), HCL Comnet (a member of the HCL Group in India) among others. We also made a major technology jump from private networks into integrating with the Public Switched Telephone Network (PSTN) in Asia. We developed a substantial amount of new networking software for PSTN switch interconnection, call processing, routing, billing data bases, fault tolerance, and network management. During FY97 we installed the first sites of public and private networks that can continue to grow for many years. Plus, these initial network installations provide technology and business models that can be applied to satellite service providers in other regions of the world.

• Satellite's Emergence

Our experience this past year strengthens our conviction that there is a growing place for satellite communications in the emerging wireless world. Satellite communications, like the rest of the wireless industry, is being transformed into a networking business; driven by software providing seamless integration into the larger wired and wireless terrestrial infrastructures. ViaSat's strategy focuses on our expertise in real time satellite networking software to create an enduring competitive advantage in this marketplace. We look forward to an exciting and prosperous year and we greatly appreciate the opportunity to earn your continued support.

Sincerely,

Mark D. Dankberg
President, CEO & Chairman of the Board



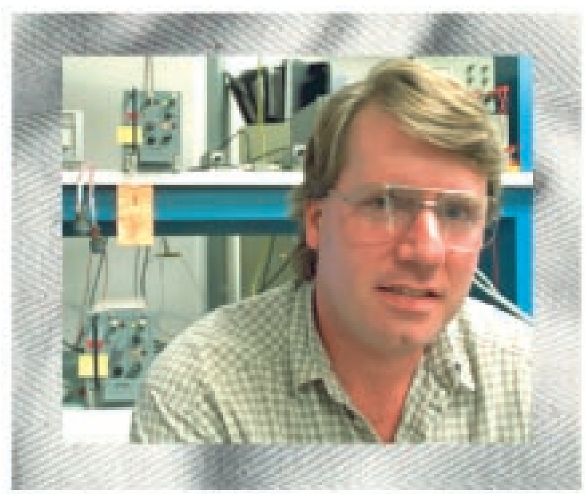
Introduction

ViaSat began trading on the Nasdaq National Market on December 3, 1996. The company has recorded eleven consecutive years of internally generated growth. We just completed our tenth consecutive profitable year. ViaSat began in 1986 with 3 people and under $25,000 in capital. The founders of ViaSat brought backgrounds in leading edge satellite communications technology. Mark Dankberg was an assistant vice president at Linkabit Corp. in San Diego before founding ViaSat at the age of 31. Co-founders Steve Hart and Mark Miller also came from Linkabit, where some of the first interactive Very Small Aperture Terminals (VSATs) were conceived and developed. All three founders remain with the Company today - Dankberg as Chairman, CEO and President; Miller as Chief Technical Officer for communications technology and hardware; and Hart as Chief Technical Officer for networking and software. Subsequently, the trio secured $300,000 in seed venture capital. It was the only outside equity required. ViaSat "bootstrapped" its own growth through retained earnings and offering stock to employees until the IPO last year.

A Track Record of Rapid Growth

The Company has grown by developing and supplying leading-edge technology for satellite networking and related advanced digital communications products to the U.S. Department of Defense (DoD). More recently we have begun applying our satellite networking expertise towards communications infrastructure systems in developing nations. Over this time;

- Sales have grown at a compounded annual rate of 63% over the last eleven years.
- Profits increased from $224,000 five years ago to $3.2 million in FY97.
- Backlog at the end of FY97 reached $78.4 million — with a record $100 million in new orders during the year.
- ViaSat was named three times on the INC. 500 list of fastest growing private companies - in 1991, 1995 and 1996.
- In May, 1997 ViaSat was cited as one of "100 Hot Growth Companies" by Business Week magazine.

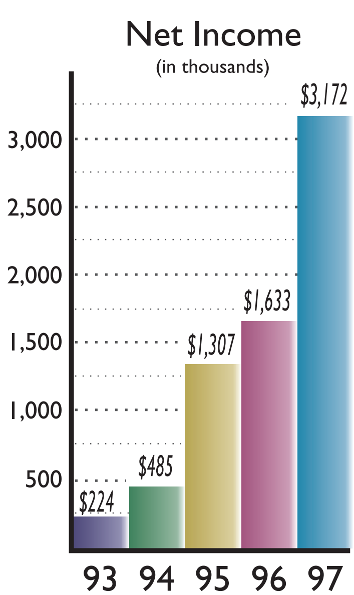


People & Products
MD-1324(c)/U
UHF DAMA Modem

Satellite Captures Consumer and Investor Interest

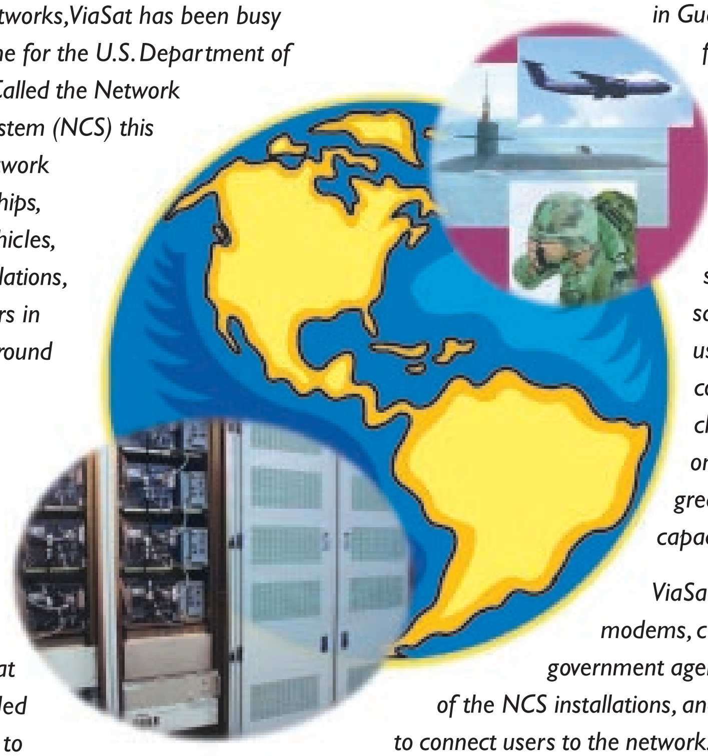
Yet, our business is unfamiliar to many people because much of our technology is focused in an area that is only now entering the communications mainstream. Over the last decade the satellite industry has captured the attention of consumers and investors in several different business areas:

- Direct Broadcast Satellite (DBS) digital TV has become one of the fastest growing consumer electronics markets ever.
- Satellite based "Global Positioning System" (GPS) receivers have entered consumer and industrial markets for automotive, boating, and even personal navigation.
- "Low Earth Orbit" (LEO) global mobile satellite providers are planning to offer premium-priced "minutes of use" to users outside the reach of terrestrial cellular networks. These handheld satellite phones will be expensive to use, but offer unprecedented global mobility.
- Manufacturers and service providers have announced initiatives for two-way "broadband" services direct to fixed-site customer premises via satellite. These systems would use new spectrum allocations in the so-called "K_a-band" to support high speed Internet access, video on demand, software distribution, and other services to two-foot satellite dishes.



While much planning and discussion has been taking place on the subject of global satellite communications networks, ViaSat has been busy building one for the U.S. Department of Defense. Called the Network Control System (NCS) this DAMA network connects ships, aircraft, vehicles, fixed installations, and soldiers in the field around the globe.

After extensive engineering and development work, ViaSat was awarded a contract to build and install four NCS sites in May, 1996.



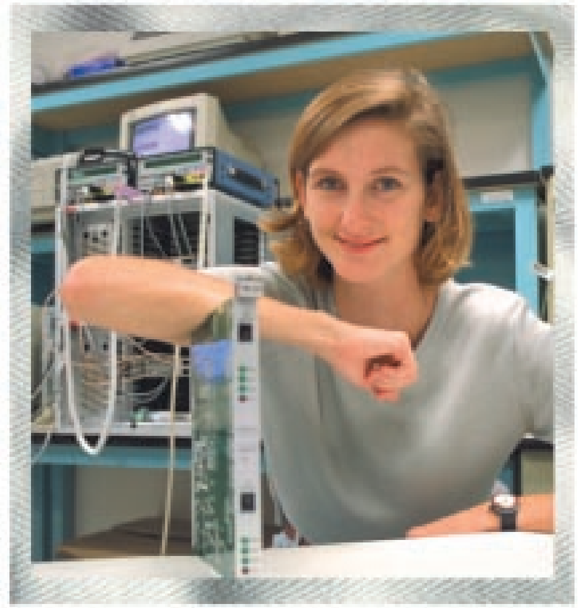
Three of the sites - Norfolk, VA; Waianae, Hawaii; and Naples, Italy - were complete as this report was going to press, with the fourth in Guam soon to follow. The control stations coordinate signals between several DoD satellites, giving users worldwide connectivity, channel access on demand, and greater satellite capacity.

ViaSat UHF DAMA modems, certified by government agencies, are part of the NCS installations, and can be used to connect users to the network.

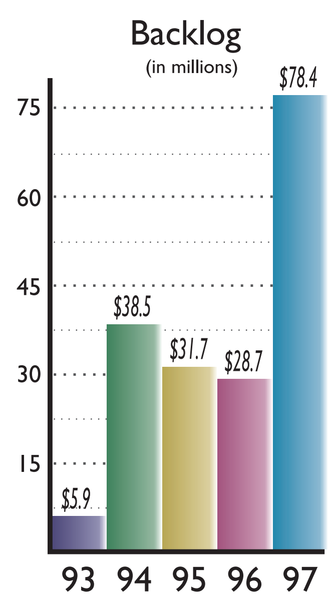
These examples all illustrate ways that satellites can be successfully applied to familiar "consumer" oriented markets. They show the growing role of satellites in the broader wireless communication industry. And they help point out the opportunities for companies with exceptional technical expertise in satellite transmission and networking. However, ViaSat's primary satellite communications focus is in a different area than these examples.

We anticipate that other significant markets for satellite communications will emerge. One example derives from the traditional "VSAT" (Very Small Aperture Terminal) industry, which has been focused on low cost data transactions for fixed-site "private networks." VSATs are two-way satellite terminals with antennas (dishes) that are typically about four feet in diameter. The most familiar domestic application is "pay at the pump" credit card transaction approval at gas stations. VSATs costing several thousand dollars each have caught the interest of developing nations as a means to expand telecommunications infrastructure.

But traditional VSAT "transaction-oriented" data networking is inappropriate for consumer applications such as seamless voice, data, and fax communications via Public Switched Telephone Networks. And, at several thousand dollars per terminal, the price points are too high for mass markets. Basic telephony is sometimes referred to as "thin-route mesh" networking because each subscriber can be directly connected to any other subscriber with a relatively low data rate circuit (several kilo bits per second). The prototypical application is telephone service to regions with low population density - generically called "rural telephony." That contrasts to the data VSAT business with its much simpler networking (point-of-sale terminal to main-frame computer, for instance).



People & Products
Telephony Interface Module

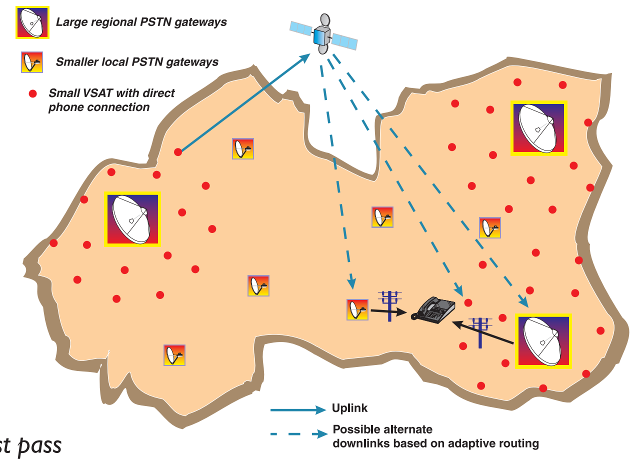


Keys to Unlocking a Two-Way Satellite Network Mass Market

We believe there are several keys to unlocking a mass market for two-way thin route satellite networks:

- Satellite networks must offer "toll quality" telephone service with features comparable to terrestrial systems.
- Satellite networks must have initial capital costs per subscriber comparable to or lower than terrestrial alternatives in the target geographic markets.
- Recurring operating costs must be comparable to or lower than terrestrial alternatives in those target geographic markets. This will require highly efficient utilization of scarce satellite bandwidth.
- The networks must be "scaleable" to effectively address applications ranging from a few thousand customers up to millions of subscribers.
- Standards must emerge that enable economies of scale and open, multi-vendor network environments.

Hutchison Telecommunications, based in Hong Kong, is one of our first customers to use ViaSat Carrier Access telephony products, with a Network Control System installed in Hong Kong and the first traffic terminals installed in Brunei and Kuala Lumpur. Most thin route long distance calls in the region must pass through "transit hubs" in large cities, but ViaSat DAMA will give Hutchison customers connections that are routed directly to their destinations. Software code engineered by ViaSat drives the network control system (left), routing calls to the most efficient destination, cutting wholesale long distance charges for carriers and subscribers.



As the diagram shows, calls may be routed directly to a ViaSat terminal connected to a phone, to a small terrestrial gateway, or to a large traffic terminal. The network routing software selects the least-cost route, but can also adapt to congestion on the network via alternative routes.

People & Products
VME DAMA Modem Card

We believe that a significant new market for fixed-site two-way "thin route" voice and data communications will emerge in the developing nations of Asia, Latin America, Eastern Europe and Africa in the near future. And, we anticipate that companies that bring a strong background in sophisticated networking software coupled with satellite transmission technology will help forge these new markets. To be sure, there are significant hurdles along the way. Establishing such a market will require close cooperation among satellite manufacturers, ground equipment suppliers, and service providers. Service providers, in particular, must obtain regulatory approvals from government agencies and/or government owned "Postal, Telephone and Telegraph" monopolies (PTTs) to be able to offer service in many nations. Even revenue collection can be an issue in sparsely populated regions. Satellite ground equipment manufacturers require a vibrant service industry to stimulate demand for their products.

People & Products
Communications Simulation

Still, many of these same business and regulatory issues are already confronting the satellite TV and LEO global mobile service industries planning operations in developing nations. We expect solutions perfected in those markets will serve as models for the rural telephony business. Meanwhile, we have begun establishing partnerships with service providers and telecommunications equipment manufacturers that will be valuable in executing our vision. During the past year we have built on, or announced, working relationships with highly regarded satellite service providers including Hutchison Whampoa in Hong Kong, and HCL Comnet in India. More recently, ViaSat and Nortel (Northern Telecom) announced a working relationship to address large scale rural telephony markets building on ViaSat DAMA technology.

Leadership in DAMA Technology for the DoD

ViaSat's expertise in satellite communication stems directly from our leadership in DAMA technology for the DoD. Our experience there is relevant to the commercial "rural telephony" opportunity in several ways:

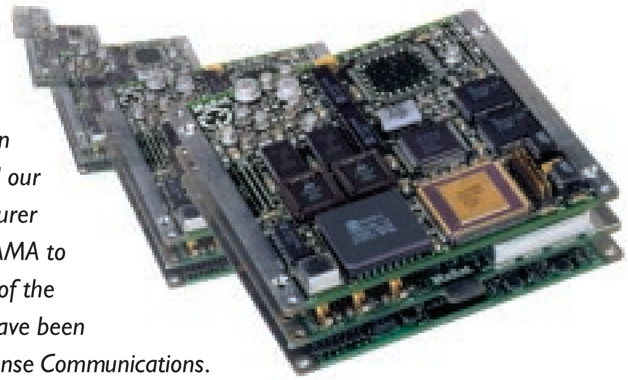
- The DoD, with limited global satellite bandwidth, places a high priority on network efficiency and capacity.
- The DoD created a set of

People & Products
Embeddable Encryption Card

open, multi-vendor standards to promote competition.

- ViaSat competed successfully with much larger companies that held existing contracts and sales channels.
- Real-time software and firmware enabling efficient, feature-rich networking services was a decisive factor in our success in this market.
- The satellite transmission and networking technology developed and deployed for DoD provides a significant foundation for addressing similar needs in commercial markets.

More than any other product, the "EMUT" is the product behind the acceleration of growth at ViaSat. An initial order in late 1994 triggered our transition into a volume manufacturer and a leading supplier of UHF DAMA to the U.S. Government. Over 3,000 of the modem modules shown at right have been shipped to customer Hughes Defense Communications. Then in March ViaSat received a follow-up order for additional units valued at over $20 million.



EMUT stands for Enhanced Manpack UHF Terminal (now called AN/PSC-5 Spitfire Terminal). The complete battery-operated UHF satellite radio is built into a backpack for use by the U.S. Army. The ViaSat module requests, and establishes channels for voice, e-mail, Fax or other data transmissions on-demand.

The terminal, combined with a portable satellite antenna (as shown), can be used to make a secure call almost anywhere in the world, using the global network control system built by ViaSat (see page 5).

Our Products

ViaSat's current products include satellite modems, network control systems for managing large numbers of subscribers, satellite network terminals, and networking processors. Our DAMA technology operates on geostationary satellites in the military UHF and SHF frequency bands, and commercial C- and Ku- bands.

We also build satellite terminals, network security devices, simulation and test equipment, and radio equipment that operates at frequencies from HF (3 MHz) up to SHF (20 GHz). Some of our products are described below as well as in the sidebars:

- AN/PSC-5 "Spitfire" DAMA modem - The "Spitfire" is a battery-operated UHF satellite radio which Hughes Defense Communications builds for the U.S. Army. ViaSat provides the DAMA modem to Hughes for this portable backpack terminal (also known as the EMUT - "Enhanced Manpack UHF

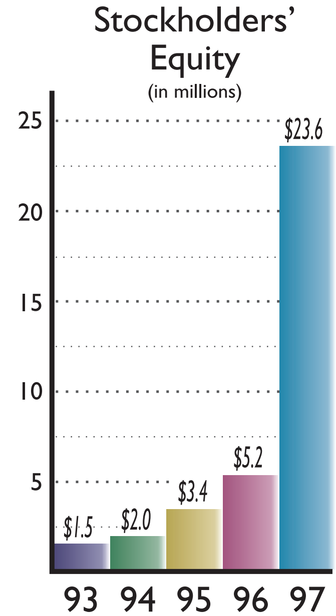
Terminal".)

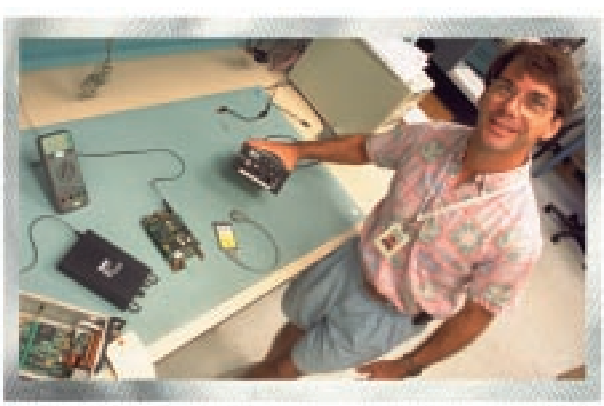
- UHF DAMA Network Control System - the DAMA network management system for a global DAMA network operated by the U.S. Air Force. ViaSat has produced and installed four sites worldwide (Guam, Hawaii, Naples and Virginia) that coordinate channels for global ship, shore, airborne and ground fixed and mobile users.

- VM-200 (Also called MD-1324) - ViaSat's stand-alone UHF DAMA modem. The modems connect to external voice coders, computers or encryption equipment and provide network access for those devices.

- CES/JCS (Communication Environment Simulator/Joint Communication Simulator) - used to simulate a realistic radio environment which can be used to test how well surveillance or other radio systems work in the presence of various and changing signals.

- JTIDS (Joint Tactical Information Distribution System) - used as the wireless communication system for "digital battlefields." For example, it allows individual fighter planes to obtain a broad view of the battlefield that is synthesized based on many different views from many different participants.





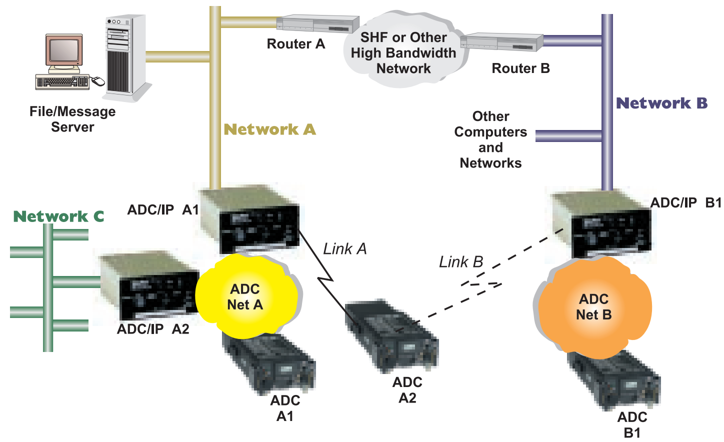
People & Products
Advanced Data Controllers

- EIP (Embeddable Infosec Product) - a plug-in module that encrypts classified information so that it can be broadcast over wireless systems (terrestrial or satellite) or sent over unclassified wirelines.

- ADC (Advanced Data Controller) - a packet processing system that provides error-free data transmission over noisy channels. ADC works for terrestrial and satellite transmissions.

- StarWire™ - our commercial DAMA satellite networking system for international telecommunications markets. StarWire™ provides toll-quality voice circuits on a demand basis. It efficiently manages scarce satellite resources, reducing costs to subscribers and the network operators. A Network Control Station configures, manages, and controls network operation, while the Aurora Subscriber Terminal is at the user site — connecting phones, a telephone switch, fax machine, and/or other devices to the network.

Advanced Data Controllers help users communicate clearly over noisy communication channels. The six different models of this device also compress e-mail and other messages so they transmit in shorter times, helping prevent unwanted signal interception. All this can be controlled and managed with ViaSat's DTS/Win software.



At left is an actual-size photo of the newest ADC. ViaSat engineers have integrated the same functionality into this small, PCMCIA (PC Card) package. The card fits any Type II PC Card expansion slot.

The diagram shows how our TCP/IP version enables access to other users on other networks, or remote access to messages stored on a central server, by wireline or satellite.

Key Management Additions

Looking ahead, the company's rapid expansion demands a strong and growing management team. During the past year we added several key executives. Robert Barrie filled the new position of Vice President of Operations. Bob brings extensive expertise in manufacturing commercial as well as defense products. He has experience in commercial VSAT production, as well as high volume consumer wireless products including CDPD and cellular telephone chip sets. Richard Segil joined ViaSat as Vice President and General Manager of our commercial satellite networking division and its StarWire product line. Rick helped capture, develop, and deploy one of the world's largest consumer digital satellite television broadcast networks, with over 2 million subscribers. We believe his experience will be invaluable in helping pioneer the two-way satellite fixed-site telephony network industry. Also, James F. Bunker was elected to add a fifth seat to ViaSat's board of directors. Jim is past president of General Instruments' VideoCipher Division in San Diego. Jim brings a new and invaluable perspective on the international satellite equipment industry to our board.

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 annual report.

	Years Ended March 31,				
(In thousands except per share data)	**1997**	**1996**	**1995**	**1994**	**1993**
Statement of Income Data:					
Revenues	$ 47,715	$ 29,017	$ 22,341	$ 11,579	$ 5,072
Cost of revenues	33,102	20,983	16,855	9,033	3,939
Gross profit	14,613	8,034	5,486	2,546	1,133
Operating expenses:					
Selling, general and administrative	4,752	3,400	2,416	1,554	740
Independent research and development	5,087	2,820	788	134	59
Income from operations	4,774	1,814	2,282	858	334
Net interest income (expense)	100	(231)	(87)	(45)	(17)
Income before income taxes	4,874	1,583	2,195	813	317
Provision (benefit) for income taxes	1,702	(50)	888	328	93
Net income	$ 3,172	$ 1,633	$ 1,307	$ 485	$ 224
Pro forma net income per share(1)	$ 0.47	$ 0.28			
Shares used in per share calculations(1)	6,702	5,876			

	March 31,				
(In thousands except per share data)	**1997**	**1996**	**1995**	**1994**	**1993**
Balance Sheet Data:					
Cash and cash equivalents	$12,673	$ 2,297	$ 2,731	$ 9	$ 75
Working capital	20,406	4,651	2,808	1,486	964
Total assets	35,674	13,262	9,377	4,986	2,550
Long-term debt, less current portion	1,428	1,747	1,220	297	124
Total stockholders' equity	23,619	5,217	3,413	1,956	1,465

(1) For an explanation of the determination of the number of shares used in computing pro forma net income per share, see Note 1 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 significantly despite government budgetary constraints. Since 1992, such revenues have grown at a compounded annual growth rate of approximately 63%. DoD revenues amounted to $46.3 million, $28.3 million and $21.2 million for the fiscal years ended March 31, 1997, 1996 and 1995, 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 63.3% and 56.3% of the Company's total revenues for the fiscal years ended March 31, 1997 and 1996, 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 6.0% and 5.0% 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 30.7% and 38.7% of the Company's revenues for the fiscal years ended March 31, 1997 and 1996, 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, 1997, the Company had firm backlog of $78.4 million, of which $67.6 million was funded. Of the $78.4 million in firm backlog, approximately $46.7 million is expected to be delivered in the fiscal year ending March 31, 1998, approximately $13.2 million is expected to be delivered in the fiscal year ending March 31, 1999 and the balance is expected to be delivered in the fiscal years ending March 31, 2000 and thereafter. The Company received $100.0 million in awards during the year ended March 31, 1997, consisting of $62.0 million in UHF DAMA satellite communications awards, $25.2 million in awards for the defense simulator business, $9.5 million in other defense awards and $3.3 million in commercial satellite communications awards. The Company's $78.4 million in firm backlog at March 31, 1997 excludes an additional $24.9 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, 1997, 1996 and 1995 were approximately $21.3 million, $19.5 million and $20.7 million, respectively.

Beginning in fiscal 1995, production contracts for delivery of previously developed equipment became a more significant percentage of total revenues. Production contracts amounted to approximately 35.3%, 19.4%, and 6.5% of fiscal 1997, 1996, and 1995 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 10.6% and 9.7% of revenues in IR&D during the fiscal years ended March 31, 1997 and 1996, respectively. The Company expects that IR&D expenditures will continue to increase in order to fund growth in government and commercial applications. 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,		
	1997	**1996**	**1995**
Revenues	100.0%	100.0%	100.0%
Cost of revenues	69.4	72.3	75.4
Gross profit	30.6	27.7	24.6
Operating expenses:			
Selling, general and administrative	10.0	11.7	10.8
Independent research and development	10.6	9.7	3.5
Income from operations	10.0	6.3	10.3
Income before income taxes	10.2	5.5	9.9
Net income	6.6	5.6	5.9

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 Enhanced Manpack UHF Terminal (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. Selling, general and administrative (" 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 been steadily increasing.

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.

Fiscal Year Ended March 31, 1996 vs. Fiscal Year Ended March 31, 1995

Revenues. The Company's revenues increased 29.9% from $22.3 million in fiscal 1995 to $29.0 million in fiscal 1996. This increase reflects the growth in defense related production contracts, primarily associated with the Company's Enhanced Manpack UHF Terminal DAMA modem products, which experienced a $5.3 million increase, and Advanced Data Controller ("ADC") products, which experienced a $1.5 million increase. Revenues from production orders (compared to funded research and development) increased from $1.4 million (6.5% of revenues) in fiscal 1995 to $5.6 million (19.4% of revenues) in fiscal 1996.

Revenues from UHF DAMA satellite communications products increased to 42.8% of revenues in fiscal 1996. This increase was due to the first Enhanced Manpack UHF Terminal DAMA modem production deliveries in the fourth quarter of 1996. UHF DAMA business area revenues grew from $7.1 million (31.7% of revenues) in fiscal 1995 to $12.4 million (42.8% of revenues) in fiscal 1996.

Gross Profit. Gross profit increased 46.4% from $5.5 million (24.6% of revenues) in fiscal 1995 to $8.0 million (27.7% of revenues) in fiscal 1996. This increase primarily reflects higher prices related to the recovery of allowable IR&D costs under certain government contracts and improved contract profitability under certain production contracts.

Selling, General and Administrative Expenses. SG&A expenses increased 40.7% from $2.4 million (10.8% of revenues) in fiscal 1995 to $3.4 million (11.7% of revenues) in fiscal 1996. Increased SG&A expenses were offset somewhat by the continuing revenue growth. 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 $321,000 in fiscal 1995 to $1.0 million in fiscal 1996.

Independent Research and Development. IR&D expenses increased 257.9% from $788,000 (3.5% of revenues) in fiscal 1995 to $2.8 million (9.7% of revenues) in fiscal 1996. Expenditures on the development of the Company's StarWire™ DAMA product began in the last quarter of fiscal 1995 and have been steadily increasing.

Interest Expense. Interest expense increased 128.1% from $114,000 in fiscal 1995 to $260,000 in fiscal 1996. Total outstanding equipment loans were $1.7 million at the end of fiscal 1995 and $2.5 million at the end of fiscal 1996. There were no outstanding borrowings under the Company's line of credit at the end of each fiscal year.

Interest Income. Interest income increased 7.4% from $27,000 in fiscal 1995 to $29,000 in fiscal 1996. Interest income relates to interest earned on short-term deposits of cash.

Provision (Benefit) for Income Taxes. The income tax provision in fiscal 1995 approximated the combined federal and state statutory rate of 40.0%. 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.

Liquidity and Capital Resources

The Company has financed its operations to date primarily from cash flow from operations, bank line of credit financing, equity financing and loans for the purchase of capital equipment. Cash (used)/provided by operating activities for the fiscal years ended March 31, 1997 and 1996 was ($1.2) million and $456,000, respectively. The relative increase in cash used for operating activities for the year ended March 31, 1997 compared to the prior year was primarily due to higher levels of accounts receivable and inventory, which was partially offset by a $1.5 million increase in net income and higher levels of accounts payable and accrued liabilities. The increase in accounts receivable, accounts payable, and accrued liabilities resulted from an increase in the Company's revenues. The growing share of revenues from production contracts led to the need to build inventory levels to support production demands. The Company anticipates that in future periods the level of inventory will be higher than historical levels.

Cash used in investing activities for the fiscal years ended March 31, 1997 and 1996 was $3.7 million and $1.9 million, respectively. The increase was the result of purchases of property and equipment, primarily consisting of test equipment and computers.

Cash provided by financing activities for the fiscal years ended March 31, 1997 and 1996 was $15.3 million and $1.0 million, respectively. This increase was primarily the result of $14.8 million of capital raised in the Company's initial public offering which closed in December 1996. This relative increase was offset by lower net financing provided by the Company's equipment line of credit.

At March 31, 1997, the Company had $12.7 million in cash and cash equivalents, $20.4 million in working capital and $1.4 million in long-term debt which consists of equipment financing. The Company had a zero balance under its line of credit at March 31, 1997 and 1996.

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, 1997) or at the bank's LIBOR rate plus 1.75% (7.69% at March 31, 1997). 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 loan has been converted into a fully amortizing loan which matures on September 15, 1999. All borrowings under the second loan, which may not exceed $2.0 million, must be made before September 15, 1997, 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, 2000. 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'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 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 1997 and 1996 is as follows (in thousands, except per share data):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
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
Pro forma net income per share (1)	$ .08	$ .10	$ .13	
Net income per share (1)				$ .15
1996				
Revenues	$ 6,768	$ 7,388	$ 5,755	$ 9,106
Gross profit	1,938	2,108	1,713	2,275
Income from operations	553	545	129	587
Net income	541	503	70	519
Pro forma net income per share (1)	$ .09	$ .08	$ .01	$ .09

(1) Pro forma net income per share and net income per share computations for each quarter are independent and may not add up to the pro forma net income per share computation for the respective year. See Note 1 of Notes to Financial Statements for an explanation of the determination of pro forma income per share.

Balance Sheet

	March 31,	
	1997	**1996**
Assets		
Current assets:		
Cash and cash equivalents	$ 12,673,000	$ 2,297,000
Accounts receivable	10,315,000	6,171,000
Inventory	4,478,000	1,223,000
Deferred income taxes	863,000	484,000
Other current assets	1,825,000	170,000
Total current assets	30,154,000	10,345,000
Property and equipment, net	5,085,000	2,789,000
Other assets	435,000	128,000
Total Assets	$ 35,674,000	$ 13,262,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,844,000	$ 2,774,000
Accrued liabilities	3,769,000	2,157,000
Current portion of notes payable	1,135,000	763,000
Total current liabilities	9,748,000	5,694,000
Notes payable	1,428,000	1,747,000
Other liabilities	879,000	604,000
Total long-term liabilities	2,307,000	2,351,000
Commitments and contingencies (Notes 10 & 11)		
Stockholders' equity:		
Series A, convertible preferred stock, $.0001 par value; 5,000,000, and 3,225,000 shares authorized; no shares and 3,225,0000 shares issued and outstanding at March 31, 1997 and March 31, 1996, respectively		32,000
Common stock, $.0001 par value, 25,000,000 and 7,335,000 shares authorized; 7,742,274 and 3,342,101 issued and outstanding at March 31, 1997 and March 31, 1996, respectively	81,000	46,000
Paid in capital	16,044,000	737,000
Stockholders' notes receivable	(80,000)	
Retained earnings	7,574,000	4,402,000
Total stockholders' equity	23,619,000	5,217,000
Total liabilities and stockholders' equity	$ 35,674,000	$ 13,262,000

See accompanying notes to financial statements.

Statement of Income

	Year Ended March 31,		
	1997	**1996**	**1995**
Revenues	$47,715,000	$29,017,000	$22,341,000
Cost of revenues	33,102,000	20,983,000	16,855,000
Gross profit	14,613,000	8,034,000	5,486,000
Operating expenses:			
Selling, general and administrative	4,752,000	3,400,000	2,416,000
Independent research and development	5,087,000	2,820,000	788,000
Income from operations	4,774,000	1,814,000	2,282,000
Other income (expense):			
Interest income	354,000	29,000	27,000
Interest expense	(254,000)	(260,000)	(114,000)
Income before income taxes	4,874,000	1,583,000	2,195,000
Provision (benefit) for income taxes	1,702,000	(50,000)	888,000
Net income	$ 3,172,000	$ 1,633,000	$ 1,307,000
Pro forma net income per share	$ 0.47	$ 0.28	
Shares used in computing pro forma net income per share	6,702,414	5,875,729	

See accompanying notes to financial statements.

Statement of Cash Flows

	Year Ended March 31,		
	1997	**1996**	**1995**
Cash flows from operating activities:			
Net income	$3,172,000	$1,633,000	$1,307,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation	1,389,000	982,000	542,000
Deferred income taxes	(721,000)	(350,000)	(13,000)
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	(4,144,000)	(1,871,000)	(265,000)
Inventory	(3,255,000)	(1,019,000)	(189,000)
Other assets	(1,620,000)	(186,000)	(43,000)
Accounts payable	2,070,000	1,294,000	530,000
Accrued liabilities	1,612,000	(512,000)	1,331,000
Other liabilities	275,000	485,000	119,000
Net cash (used in) provided by operating activities	(1,222,000)	456,000	3,319,000
Cash flows from investing activities:			
Purchases of property and equipment	(3,685,000)	(1,875,000)	(1,701,000)
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)	(350,000)
Proceeds from issuance of notes payable	889,000	2,778,000	1,650,000
Repayment of notes payable	(836,000)	(1,964,000)	(346,000)
Proceeds from issuance of common stock	15,230,000	171,000	150,000
Net cash provided by financing activities	15,283,000	985,000	1,104,000
Net increase (decrease) in cash and cash equivalents	10,376,000	(434,000)	2,722,000
Cash and cash equivalents at beginning of period	2,297,000	2,731,000	9,000
Cash and cash equivalents at end of period	$12,673,000	$ 2,297,000	$ 2,731,000
Supplemental information:			
Cash paid for interest	$ 254,000	$ 260,000	$ 116,000
Cash paid for income taxes	$2,293,000	$ 468,000	$ 642,000

See accompanying notes to financial statements.

Statement of Stockholders' Equity

	Preferred Stock		Common Stock			Stockholders'	
	Number of Shares	Amount	Number of Shares	Amount	Paid In Capital	Notes Receivable	Retained Earnings
Balance at March 31, 1994	3,225,000	$ 32,000	2,967,008	$ 40,000	$ 422,000		$ 1,462,000
Issuance of common stock			240,331	4,000	146,000		
Net income							1,307,000
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

See accompanying notes to financial statements.

Notes to Financial Statements

Note 1. The Company and Summary of 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. 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, 1997, the Company held investments in investment grade securities with maturities of three months or less. 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 has included these securities, net of amortization, in cash and cash equivalents and has designated them 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 type contracts. Such sales amounted to $46,292,000, $28,305,000, and $21,226,000 for the years ended March 31, 1997, 1996 and 1995, respectively. Included in these revenues are sales to a significant customer under various subcontracts totaling $12,830,000, $5,269,000 and $4,166,000 during the years ended March 31, 1997, 1996 and 1995, respectively. The Company's five largest contracts (by revenues) generated approximately 57.6% and 36.5% of the Company's total revenues for the fiscal year ended March 31, 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 1994. 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 and trade accounts receivable which are generally not collateralized. The Company limits its exposure to credit loss by placing its cash equivalents with high credit quality financial institutions. Concentrations of credit risk with respect to receivables are limited because the Company's primary 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, 1997, 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 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 based upon an estimate of total warranty costs, with amounts expected to be incurred within twelve months classified as a current liability.

Income Taxes

Income taxes are provided utilizing the liability method. The liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Additionally, under the liability method, changes in tax rates and laws will be reflected in income in the period such changes are enacted.

Fair Value of Financial Instruments

At March 31, 1997, the carrying amounts of the Company's financial instruments, including cash equivalents, trade receivables and accounts payable, approximated their fair values due to their short term maturities. At March 31, 1997, the estimated fair value of the Company's long-term debt approximated its carrying value.

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-based method had been applied in measuring compensation expense (Note 7).

Pro forma net income per share

Pro forma net income per share is computed based on the weighted average number of common shares and common stock equivalents, using the treasury stock method, outstanding during the respective periods after giving retroactive effect to the conversion, which occurred upon the closing of the Company's initial public offering, of all outstanding shares of preferred stock into 2,365,538 shares of common stock. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, all issuances of common stock and all stock options granted within one year prior to the Company's initial public offering have been included as outstanding for all periods using the treasury stock method. Historical earnings per share are not presented because such amounts are not deemed meaningful due to the significant change in the Company's capital structure that occurred in connection with the initial public offering.

New Accounting Pronouncement

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." SFAS No. 128 will be adopted by the Company as required in the third quarter of fiscal 1998. Upon adoption of SFAS No. 128, the Company will present basic earnings per share as well as diluted earnings per share. Basic earnings per share will be computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share will be computed based on the weighted average number of shares of common stock outstanding during the period increased by the effect of dilutive stock options using the treasury stock method. Pro forma basic earnings per share for the years ended March 31, 1997 and 1996 are $0.49 and $0.28, respectively. Pro forma diluted earnings per share for the years ended March 31, 1997 and 1996 are $0.47 and $0.28, respectively.

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

	At March 31,	
	1997	1996
Cash and cash equivalents:		
Debt Securities	$ 8,979,000	
Certificates of deposit	1,500,000	
Cash	2,194,000	$ 2,297,000
	$ 12,673,000	$ 2,297,000
Accounts receivable:		
Billed	$ 6,860,000	$ 5,653,000
Unbilled	3,455,000	518,000
	$ 10,315,000	$ 6,171,000
Inventory:		
Raw materials	$ 1,418,000	$ 753,000
Work in process	2,662,000	402,000
Finished goods	398,000	68,000
	$ 4,478,000	$ 1,223,000
Property and equipment:		
Machinery and equipment	$ 5,320,000	$ 2,313,000
Computer equipment	3,012,000	2,213,000
Furniture and fixtures	256,000	380,000
	8,588,000	4,906,000
Less accumulated depreciation	(3,503,000)	(2,117,000)
	$ 5,085,000	$ 2,789,000
Accrued liabilities:		
Accrued vacation	$ 821,000	$ 591,000
Current portion of warranty reserve	806,000	413,000
Accrued bonus	762,000	347,000
Accrued 401(k) matching contribution	553,000	444,000
Collections in excess of revenues	355,000	237,000
Income taxes payable	252,000	40,000
Other	220,000	85,000
	$ 3,769,000	$ 2,157,000

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, 1997) or at the bank's LIBOR rate plus 1.75% (7.69% at March 31, 1997). There were no borrowings outstanding as of March 31, 1997 and 1996. 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, 1997	March 31, 1996
Bank installment loans, with various expiration dates through September 1999, total monthly payments of $87,000 with interest rates ranging between 8% and 12%, collateralized by equipment	$ 2,232,000	$ 1,989,000
Finance company installment loans, with various expiration dates through April 1999, total monthly payments of $20,000 with interest rates ranging between 10.23% and 11.81%, collateralized by equipment	331,000	521,000
	2,563,000	2,510,000
Less current portion	(1,135,000)	(763,000)
	$ 1,428,000	$ 1,747,000

Principal maturities of notes payable as of March 31, 1997 are summarized as follows:

Year Ending March 31,	
1998	$ 1,135,000
1999	907,000
2000	417,000
2001	104,000
	$ 2,563,000

Note 6 - Convertible Preferred Stock

At March 31, 1996, the Company had 3,225,000 shares of its convertible $.01 par value Series A preferred stock outstanding with a liquidation preference of $.10 per share. Holders of the preferred stock have votes per share equivalent to the number of shares of common stock to which the preferred stock may be converted. On December 3, 1996, the Company completed its initial public offering which resulted in the conversion of all outstanding shares of the preferred stock into 2,365,538 shares of common stock.

Note 7 - 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 market 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 were 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, 1997, the Company has granted 175,000 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 of the Company 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.

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

	Number of Shares	Option Price per share
Outstanding at March 31, 1994	54,829	$ .34
Options granted	135,587	$ .48 - .82
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

The Company also granted certain officers and employees the opportunity to purchase at fair market value 118,607, 124,805 and 254,855 shares of the Company's common stock in fiscal 1997, 1996 and 1995 respectively.

The following table summarizes all options outstanding and exercisable by price range as of March 31, 1997:

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	235,380	7.80	$ 1.00	112,349	$ 0.84
$ 4.09 - 4.50	116,638	9.25	$ 4.15	—	—
$ 9.00 - 10.75	175,000	9.86	$ 9.84	—	—
$ 0.34 - 10.75	527,018				

Pro forma information.

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.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. Such information is determined 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 prescribed by that statement.

The fair values of options granted during the years ended March 31, 1997 and 1996 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
	1997	**1996**	**1997**
Expected life (in years)	3.50 - 5.00	3.50	0.50
Risk-free interest rate	6.45%	5.93%	5.97%
Expected volatility	50.00%	50.00%	50.00%
Expected dividend yield	0.00%	0.00%	0.00%

The weighted average estimated fair value of employee stock options granted during 1997 and 1996 was $3.55 and $0.57 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during fiscal 1997 was $2.78 per share.

For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the options' 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, 1997 and 1996 are as follows:

	1997	**1996**
Pro forma net income	$ 3,016,000	$ 1,615,000
Pro forma earnings per share	$ 0.46	$ 0.28

Note 8 - Income Taxes

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

	Year Ended March 31,		
	1997	**1996**	**1995**
Current tax provision:			
Federal	$ 1,954,000	$ 344,000	$ 708,000
State	469,000	9,000	193,000
	2,423,000	353,000	901,000
Deferred tax provision:			
Federal	(563,000)	(310,000)	(10,000)
State	(158,000)	(93,000)	(3,000)
	(721,000)	(403,000)	(13,000)
Total provision (benefit) for income taxes	$ 1,702,000	$ (50,000)	$ 888,000

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

	March 31, 1997	1996
Deferred tax assets:		
Warranty reserve	$ 528,000	$ 219,000
Inventory reserve	280,000	
Accrued vacation	247,000	190,000
Other	260,000	142,000
Total deferred tax assets	1,315,000	551,000
Deferred tax liabilities:		
Depreciation	(57,000)	(14,000)
Net deferred tax assets	$ 1,258,000	$ 537,000

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:

	March 31, 1997	1996	1995
Tax expense at statutory rate	$ 1,657,000	$ 538,000	$ 746,000
State tax provision (benefit), net of federal benefit	205,000	(60,000)	153,000
Research tax credit	(181,000)	(480,000)	(18,000)
Other	21,000	(48,000)	7,000
	$ 1,702,000	$ (50,000)	$ 888,000

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 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 1997, 1996 and 1995 amounted to $553,000, $444,000 and $275,000 respectively. The cost of administering the plan is not significant.

Note 10 - Commitments

The Company leases office facilities under noncancelable operating leases with terms ranging from one to five years which expire between May 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 $793,000, $608,000 and $493,000 in fiscal years 1997, 1996 and 1995 respectively.

Future minimum lease payments are as follows:

Year Ending March 31,	
1998	$ 755,000
1999	649,000
2000	151,000
	$ 1,555,000

Additionally, the Company enters into long term purchase commitments with certain of its vendors to purchase materials used to manufacture products delivered under long term contracts. At March 31, 1997, the Company had commitments to purchase $1,280,000, $1,181,000, $1,181,000, and $66,000 of materials in fiscal 1998, 1999, 2000, and 2001 respectively. Purchases under these contracts totaled $2,098,000 during the year ended March 31, 1997.

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, 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.

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, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1997, 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 12, 1997

Market for Registrant's Common Stock and Related Stockholder Matters

The Common Stock of the Company is traded on the The Nasdaq Stock 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 The Nasdaq Stock Market of the Company's Common Stock for the periods indicated, as reported by Nasdaq. Such quotations represent inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

Fiscal 1997	**High**	**Low**
Third Quarter (a)	$ 9.63	$ 8.38
Fourth Quarter	$ 12.25	$ 8.75

As of June 16, 1997, there were 179 holders of record of the Common Stock.

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.

(a) Subsequent to December 3, 1996.

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
President
Trans-Tech Information Management Systems Inc.

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 & General Manager of
Electronic Systems Group

James P. Collins
Vice President Business Development

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

Richard Segil
Vice President and General Manager,
StarWire Products Group

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

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General Legal Counsel
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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, August 13, 1997
Del Mar Hilton

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

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