VIASAT INC
Form 10-Q
August 10, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2006.

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

Commission File Number (0-21767)

ViaSat, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-0174996**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6155 El Camino Real, Carlsbad, California 92009

(760) 476-2200

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares outstanding of the registrant s Common Stock, $.0001 par value, as of August 4, 2006 was 28,574,782.

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PART I Financial Information
Item 1. ***Financial Statements***

VIASAT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands)

	June 30, 2006	March 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 46,226	$ 36,723
Short-term investments	164	164
Accounts receivable, net	151,378	144,715
Inventories	48,657	49,883
Deferred income taxes	7,008	7,008
Prepaid expenses and other current assets	8,408	5,960
Total current assets	261,841	244,453
Goodwill	48,855	28,133
Other intangible assets, net	28,493	23,983
Property and equipment, net	47,447	46,211
Other assets	20,005	22,289
Total assets	$ 406,641	$ 365,069
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 44,918	$ 50,577
Accrued liabilities	50,358	40,969
Payable to predecessors shareholders of acquired business	9,000	
Total current liabilities	104,276	91,546
Other liabilities	10,325	9,389
Total liabilities	114,601	100,935
Commitments and contingencies (Note 8)		
Minority interest in consolidated subsidiary	904	836
Stockholders equity:		
Common stock	3	3
Paid in capital	199,993	177,680
Retained earnings	91,164	85,803
Accumulated other comprehensive (loss) income	(24)	(188)
Total stockholders equity	291,136	263,298
Total liabilities and stockholders equity	$ 406,641	$ 365,069

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share amounts)

	Three months ended	
	June 30, 2006	July 1, 2005
Revenues	$ 128,701	$ 99,977
Operating expenses:		
Cost of revenues	98,115	75,721
Selling, general and administrative	15,844	12,846
Independent research and development	4,792	3,304
Amortization of intangible assets	2,060	1,512
Income from operations	7,890	6,594
Other income (expense):		
Interest income	326	2
Interest expense	(91)	(151)
Income before income taxes	8,125	6,445
Provision for income taxes	2,696	1,266
Minority interest in net earnings of subsidiary, net of tax	68	3
Net income	$ 5,361	$ 5,176
Basic net income per share	$ 0.19	$ 0.19
Diluted net income per share	$ 0.18	$ 0.18
Shares used in basic net income per share computation	27,791	26,890
Shares used in diluted net income per share computation	29,728	28,179

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Three months ended	
	June 30, 2006	July 1, 2005
Cash flows from operating activities:		
Net income	$ 5,361	$ 5,176
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,339	2,580
Amortization of intangible assets and software	2,907	2,332
Deferred income taxes	(458)	(1,405)
Incremental tax benefits from stock options exercised	(399)	
Non-cash stock-based compensation	1,528	
Other non-cash adjustments	226	3
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effects of the acquisition:		
Accounts receivable, net	(5,309)	(13,660)
Inventories	2,569	889
Other assets	(3,106)	4,828
Accounts payable	(8,212)	2,364
Accrued liabilities	8,792	3,528
Other liabilities	658	178
Net cash provided by operating activities	7,896	6,813
Cash flows from investing activities:		
Acquisition of a business, net of cash acquired	(281)	
Purchases of property and equipment	(2,249)	(3,623)
Net cash (used in) investing activities	(2,530)	(3,623)
Cash flows from financing activities:		
Proceeds from line of credit		3,000
Payments on line of credit		(3,000)
Proceeds from issuance of common stock, net of issuance costs	3,671	1,424
Incremental tax benefits from stock options exercised	399	
Net cash provided by financing activities	4,070	1,424
Effect of exchange rate changes on cash	67	(39)
Net increase in cash and cash equivalents	9,503	4,575
Cash and cash equivalents at beginning of period	36,723	14,579
Cash and cash equivalents at end of period	$ 46,226	$ 19,154

Non-cash investing and financing activities:

Issuance of stock in connection with acquisition (see Note 12)	$ 16,350	$
Recording of payable to predecessor shareholders of an acquired business (see Note 1)	$ 9,000	$

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(UNAUDITED)
(In thousands, except share data)

	Common Stock Number of Shares	Amount	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance at March 31, 2006	27,594,549	$ 3	$ 177,680	$ 85,803	$ (188)	$ 263,298	
Exercise of stock options	167,146		2,575			2,575	
Tax benefit from exercise of stock options			764			764	
Issuance of stock under Employee Stock Purchase Plan	50,217		1,096			1,096	
Share-based compensation expense			1,515			1,515	
Value of stock issued in connection with acquisition of a business	744,104		16,350			16,350	
Amortization of deferred compensation, net of cancellations			13			13	
Net income				5,361		5,361	$ 5,361
Hedging transaction, net of tax					184	184	184
Foreign currency translation, net of tax					(20)	(20)	(20)
Comprehensive income							$ 5,525
Balance at June 30, 2006	28,556,016	$ 3	$ 199,993	$ 91,164	$ (24)	$ 291,136	

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 Basis of Presentation

The accompanying condensed consolidated balance sheet at June 30, 2006, the condensed consolidated statements of operations for the three months ended June 30, 2006 and July 1, 2005, the condensed consolidated statements of cash flows for the three months ended June 30, 2006 and July 1, 2005, and the condensed consolidated statement of stockholders equity for the three months ended June 30, 2006 have been prepared by the management of ViaSat, Inc. (the Company), and have not been audited. These financial statements have been prepared on the same basis as the audited consolidated financial statements for the year ended March 31, 2006 and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for all periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended March 31, 2006 included in our 2006 Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year. The year-end condensed balance sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America.

Our consolidated financial statements include the assets, liabilities and results of operations of TrellisWare Technologies, Inc., a majority owned subsidiary of the Company. All significant intercompany amounts have been eliminated.

Our fiscal year is the 52 or 53 weeks ending on the Friday closest to March 31 of the specified year. For example, references to fiscal year 2007 refer to the fiscal year ending on March 30, 2007. Our quarters for fiscal year 2007 end on June 30, 2006, September 29, 2006, December 29, 2006 and March 30, 2007.

Certain prior period amounts have been reclassified to conform to the current period presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates made by management include revenue recognition, stock based compensation, self-insurance reserves, capitalized software, allowance for doubtful accounts, warranty accrual, valuation of goodwill and other intangible assets, and valuation allowance on deferred tax assets.

Derivatives

We enter into foreign currency forward and option contracts to hedge certain forecasted foreign currency transactions. Gains and losses arising from foreign currency forward and option contracts not designated as hedging instruments are recorded in interest income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts that are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as gains (losses) on derivative instruments until the underlying transaction affects our earnings at which time they are then recorded in the same income statement line as the underlying transaction.

Deferred Rent

Rent expense on noncancellable leases containing known future scheduled rent increases are recorded on a straight-line basis over the term of the respective leases beginning when we receive possession of the leased property for construction purposes. The difference between rent expense and rent paid is accounted for as deferred rent. Landlord improvement allowances and other such lease incentives are recorded as deferred lease credits and are amortized on a straight-line basis over the life of the lease as a reduction to rent expense.

Payable to Predecessor Shareholders of Acquired Business

On May 23, 2006, in relation to the Company s Efficient Channel Coding, Inc. (ECC) acquisition and as additional consideration, the Company agreed to pay the maximum earn-out amount to the former ECC stockholders in the amount of $9.0 million which has been accrued as of June 30, 2006. The $9.0 million will be paid in cash or stock, at

the Company s option, in May 2007. The additional purchase price consideration of $9.0 million was recorded as additional goodwill in the Satellite Networks segment in first quarter of fiscal year 2007.

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VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Assets Held-for-Sale

In January 2006, the Company purchased approximately 10 acres of land adjacent to a leased facility for approximately $3.1 million. During the first quarter of fiscal year 2007, the Company signed a property listing agreement with the intention to sell the property over the next few months. As of June 30, 2006, we recorded the property in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets, as an asset held-for-sale at the lower of carrying value or fair value, less estimated costs to sell, which is estimated to be $3.1 million.

Self-Insurance Liabilities

In the first quarter of fiscal 2007, the Company adopted a self-insurance plan to retain a portion of the exposure for losses related to employee medical benefits. The Company also has a self-insurance plan for a portion of the exposure for losses related to workers compensation costs. The self-insured policies provide for both specific and aggregate stop-loss limits. We utilize internal actuarial methods, as well as an independent third-party actuary for the purpose of estimating ultimate costs for a particular policy year. Based on these actuarial methods along with currently available information and insurance industry statistics, the Company recorded self-insurance liabilities as of June 30, 2006 and March 31, 2006 of $671,000 and $75,000, respectively. Our estimate is based on average claims experience in our industry and our own experience in terms of frequency and severity of claims, including asserted and unasserted claims incurred but not reported, with no explicit provision for adverse fluctuation from year to year and is subject to inherent variability. This variability may lead to ultimate payments being either greater or less than the amounts presented above. Self-insurance liabilities have been classified as current in accordance with the estimated timing of the projected payments.

Share-Based Payments

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123 (FAS 123R), Share-Based Payment, which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. On April 14, 2005, the Securities and Exchange Commission adopted a new rule amending the effective dates for FAS 123R. In accordance with the new rule, the Company adopted the accounting provisions of FAS 123R beginning in the first quarter of fiscal 2007.

Under FAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period on a straight-line basis. The Company has no awards with market or performance conditions. The Company adopted the provisions of FAS 123R on April 1, 2006, the first day of the Company s fiscal year 2007, using a modified prospective application, which provides for certain changes to the method for estimating the value of share-based compensation. Under the modified prospective application method, prior periods are not revised for comparative purposes. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date, which are subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123).

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to FAS 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R.

Share-Based Compensation Information under FAS 123R. Upon adoption of FAS 123R, the Company continued to use the same method of valuation for stock options granted beginning in fiscal 2007, the Black-Scholes option-pricing model (Black-Scholes model) which was previously used for the Company s pro forma information

required under FAS 123. The Company s employee stock options have simple vesting schedules typically ranging from three to five years. Therefore, the Company did not see any benefits in using a binomial model, a more extensive model, than closed-form models such as the Black-Scholes model, at the present time.

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(UNAUDITED)

On June 30, 2006, the Company had one share-based compensation plan and employee stock purchase plan described below. The compensation cost that has been charged against income for the option plan under FAS 123R was $168,000 and for the stock purchase plan it was $199,000 for the three months ended June 30, 2006. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $53,000 for the three months ended June 30, 2006. There was no compensation cost capitalized as part of inventory and fixed assets for the three months ended June 30, 2006, as the amounts were not significant.

The Company s 1996 Equity Participation Plan (the Plan), which is stockholder-approved, permits the grant of stock options, stock appreciation rights, restricted stock and other awards to its employees for up to 7,600,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company s stock at the date of grant; those option awards generally vest based on three to five years of continuous service and are exercisable for up to ten years from the grant date or up to five years from the date of grant for a ten percent owner. As of June 30, 2006, the Company had granted options net of cancellations to purchase 7,092,701 shares of common stock under the Plan.

The ViaSat, Inc. Employee Stock Purchase Plan (the Employee Stock Purchase Plan) assists employees in acquiring a stock ownership interest in the Company and encourages 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. The maximum number of shares reserved for issuance under this plan is 1,500,000 shares. 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 June 30, 2006, the Company had issued 1,042,455 shares of common stock under this plan.

As of June 30, 2006, there was $2.4 million and zero, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan and the Employee Stock Purchase Plan. That cost is expected to be recognized over a weighted-average period of 3.5 years. The total fair value of shares vested during the three months ended June 30, 2006 was $168,000.

Cash received from option exercise under all share-based payment arrangements for the three months ended June 30, 2006 was $3.7 million. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled $764,000 for the three months ended June 30, 2006.

The weighted-average estimated fair value of employee stock options granted and employee stock purchase plan shares issued during the three months ended June 30, 2006 was $16.64 and $6.74 per share, respectively, using the Black-Scholes model with the following weighted-average assumptions (annualized percentages) for the three months ended June 30, 2006:

	Employee Stock Options	**Employee Stock Purchase Rights**
Volatility	65.8%	38.0%
Risk-free interest rate	5.0%	4.4%
Dividend yield	0.00%	0.00%
Weighted average expected life	6.0 years	0.5 years

The Company s expected volatility is a measure of the amount by which our stock price is expected to fluctuate. The estimated volatilities for stock options and employee stock purchase rights are based on the historical volatility calculated using the daily stock price of our stock over a recent historical period equal to the expected term. The risk-free interest rate that we use in determining the fair value of our stock-based awards is based on the implied yield on U.S. Treasury zero-coupon issues with remaining terms equivalent to the expected term of our stock-based awards.

The expected life of employee stock options represents the calculation using the simplified method for plain vanilla options applied consistently to all plain vanilla options, consistent with the guidance in SAB 107. The Company expects to replace the simplified method with the historical data method for the valuation of shares granted after December 31, 2007, as more detailed information becomes readily available to the Company, consistent with the guidance in SAB 107. The weighted average expected life of employee stock options granted during the three months ended June 30, 2006 derived from the simplified method was 6.0 years. The expected term or life of employee stock purchase rights issued represents the expected period of time from the date of grant to the estimated date that the stock purchase right under our Employee Stock Purchase Plan would be fully exercised.

A summary of employee stock option activity as of June 30, 2006 and during the quarter then ended is presented below:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000's)
Outstanding at March 31, 2006	5,700,146	$ 16.70		
Options granted	74,000	26.02		
Options canceled	(22,464)	17.86		
Options exercised	(167,146)	15.41		
Outstanding at June 30, 2006	5,584,536	$ 16.86	5.81	$ 49,608
Vested and exercisable at June 30, 2006	5,357,587	$ 16.66	5.72	$ 48,620

The total intrinsic value of options exercised during the three months ended June 30, 2006 was $2.2 million.

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VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

As share-based compensation expense recognized in the condensed consolidated statement of operations for the three months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

In the Company s pro forma information required under FAS 123 for the periods prior to fiscal 2007, the Company accounted for forfeitures as they occurred.

Total estimated share-based compensation expense, related to the Company s FAS 123R share-based awards, recognized for the three months ended June 30, 2006 was comprised as follows:

	Three months ended June 30, 2006 (In thousands, except per share data)
Cost of revenues	$ 146
Selling, general and administrative	206
Independent research and development	15
Share-based compensation expense before taxes	367
Related income tax benefits	(53)
Share-based compensation expense, net of taxes	$ 314
Net share-based compensation expense, per common share:	
Basic	$ 0.01
Diluted	$ 0.01

The Company recorded $52,000 in share-based compensation expense during the three months ended June 30, 2006 related to share-based awards granted during fiscal 2007. In addition, for the three months ended June 30, 2006, the adoption of FAS 123R resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities of $399,000, related to incremental tax benefits from stock options exercised in the period.

Pro Forma Information under FAS 123 for Periods Prior to Fiscal 2007. Prior to adopting the provisions of FAS 123R, the Company recorded estimated compensation expense for employee stock options based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion 25 (APB 25), Accounting for Stock Issued to Employees and provided the required pro forma disclosures of FAS 123. Because the Company established the exercise price based on the fair market value of the Company s stock at the date of grant, the stock options had no intrinsic value upon grant, and therefore no estimated expense was recorded prior to adopting FAS 123R. Each accounting period, the Company reported the potential dilutive impact of stock options in its diluted earnings per common share using the treasury-stock method. Out-of-the-money stock options (i.e., the average stock price during the period was below the strike price of the stock option) were not included in diluted earnings per common share as their effect was anti-dilutive.

For purposes of pro forma disclosures under FAS 123 for the three months ended July 1, 2005, the estimated fair value of the share-based awards was assumed to be amortized to expense over the vesting periods. The pro forma effects of recognizing estimated compensation expense under the fair value method on net income and earnings per common share were as follows (amounts were not materially different upon adoption of FAS 123R):

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VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three months ended July 1, 2005 (In thousands, except per share data)
Net income as reported	$ 5,176
Stock based compensation included in net income, net of tax	
Stock based employee compensation expense under fair value based method, net of tax	(2,371)
Pro forma net income	$ 2,805
Basic earnings per share	
As reported	$ 0.19
Pro forma	$ 0.10
Diluted earnings per share	
As reported	$ 0.18
Pro forma	$ 0.10

The weighted-average estimated fair value of employee stock options granted and employee stock purchase plan shares issued during the three months ended July 1, 2005 was $10.57 and $7.30 per share, respectively, using the Black-Scholes model with the following weighted-average assumptions (annualized percentages) for the three months ended July 1, 2005:

	Employee Stock Options	Employee Stock Purchase Plan
Expected life (in years)	6.31	0.5
Risk-free interest rate	3.89%	1.68%
Expected volatility	55.00%	46.00%
Expected dividend yield	0.00%	0.00%

Review of Stock Option Grant Procedures

We commenced a voluntary internal investigation, assisted by our outside legal counsel, of our historical stock option granting practices, stock option documentation and related accounting from our initial public offering in December 1996 to June 30, 2006. At the conclusion of our investigation (which is complete as of the date of this filing), neither our outside legal counsel nor the Company believes there is evidence of a pattern of intentionally misdating stock option grants to achieve an accounting result, or that any officer, director, or senior executive at the Company willfully or knowingly engaged in stock options misdating, or had knowledge of others doing so.

During the investigation we identified certain accounting errors associated with stock options granted primarily to certain non-executive new hire employees during the ten-year period from December 2006 to June 30, 2006. Based on the results of our investigation, we identified that certain stock options to non-executive new hires had incorrectly been accounted for using an accounting measurement date prior to the date that the new hires commenced employment. We concluded, with the concurrence of the Audit Committee, that the financial impact of these errors was not material to our consolidated financial statements for any annual period in which the errors related. In accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraph 29, we recorded a cumulative adjustment to compensation expense in the first quarter of fiscal year 2007 of $703,000, net of tax, because the effect of the correcting adjustment is not material to our expected fiscal 2007 net income. This

non-cash compensation expense will have no impact on future periods. There is no impact on revenue or net cash provided by operating activities as a result of recording the compensation expense.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements.

Note 2 Revenue Recognition

A substantial portion of the Company s revenues are derived from long-term contracts requiring development and delivery of products over time and often contain fixed-price purchase options for additional products. Sales related to long-term contracts are accounted for under the percentage-of-completion method of accounting under the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Sales and earnings under these contracts are recorded either based on the ratio of actual costs incurred to total estimated costs expected to be incurred related to the contract, the cost-to-cost method, or as products are shipped under the units-of-delivery method. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. Changes in estimates of profit or loss on contracts are included in earnings on a cumulative basis in the period the estimate is changed. During the three months ended June 30, 2006 and July 1, 2005, we recorded charges of approximately $1.0 million and $1.9 million, respectively, related to loss contracts.

The Company also has contracts and purchase orders where revenue is recorded on delivery of products in accordance with SAB 104, Staff Accounting Bulletin No. 104: Revenue Recognition. In this situation, contracts and customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. The Company assesses whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment, and assesses collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer s payment history.

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When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value in accordance with Emerging Issues Task Force (EITF) 00-21, Accounting for Multiple Element Revenue Arrangements and recognized when the applicable revenue recognition criteria for each element are met. The amount of product and service revenue recognized is impacted by our judgments as to whether an arrangement includes multiple elements and, if so, whether vendor-specific objective evidence of fair value exists for those elements. Changes to the elements in an arrangement and our ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition.

Collections in excess of revenues represent cash collected from customers in advance of revenue recognition and are recorded as an accrued liability.

Contract costs on U.S. government contracts, including indirect costs, are subject to audit and negotiations with U.S. government representatives. These audits have been completed and agreed upon through fiscal year 2001. Contract revenues and accounts receivable are stated at amounts which are expected to be realized upon final settlement.

Note 3 Earnings Per Share

Potential common stock of 1,936,194 and 1,289,050 shares for the three months ended June 30, 2006 and July 1, 2005, respectively, were included in the calculation of diluted earnings per share. Antidilutive shares excluded from the calculation were 114,521 and 2,057,989 shares for the three months ended June 30, 2006 and July 1, 2005, respectively. Potential common stock is primarily comprised of options granted under our stock option plans.

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Note 4 Composition of Certain Balance Sheet Captions (In thousands)

	June 30, 2006	March 31, 2006
Accounts receivable, net:		
Billed	$ 81,555	$ 79,107
Unbilled	70,179	65,873
Allowance for doubtful accounts	(356)	(265)
	$ 151,378	$ 144,715
Inventories:		
Raw materials	$ 14,394	$ 28,457
Work in process	22,111	9,862
Finished goods	12,152	11,564
	$ 48,657	$ 49,883
Prepaid expenses and other current assets:		
Prepaid expenses	$ 5,520	$ 5,322
Other	2,888	638
	$ 8,408	$ 5,960
Other intangible assets, net:		
Technology	$ 32,270	$ 29,670
Contracts and relationships	17,836	15,436
Non-compete agreement	8,370	7,950
Other intangibles	9,225	8,075
	67,701	61,131
Less accumulated amortization	(39,208)	(37,148)
	$ 28,493	$ 23,983
Property and equipment, net:		
Machinery and equipment	$ 50,340	$ 47,704
Computer equipment and software	34,467	33,693
Furniture and fixtures	6,058	5,905
Leasehold improvements	8,204	7,617
Land held-for-sale	3,124	3,124

Construction in progress		6,175		5,808
		108,368		103,851
Less accumulated depreciation		(60,921)		(57,640)
	$	47,447	$	46,211
Other assets:				
Capitalized software costs, net	$	6,122	$	6,963
Deferred income taxes		11,375		13,518
Other		2,508		1,808
	$	20,005	$	22,289
Accrued liabilities:				
Current portion of warranty reserve	$	5,176	$	4,395
Accrued vacation		6,937		6,381
Accrued bonus		1,467		4,645
Accrued 401(k) matching contribution		1,053		3,196
Medical self-insurance liabilities		596		
Income taxes payable		5,573		1,534
Collections in excess of revenues		22,054		15,141
Other		7,502		5,677
	$	50,358	$	40,969
Other liabilities:				
Accrued warranty	$	4,402	$	3,974
Long term portion of deferred rent		3,061		2,809
Deferred income taxes		1,764		1,764
Other		1,098		842
	$	10,325	$	9,389

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Note 5 Accounting for Goodwill and Intangible Assets

We account for our goodwill under SFAS No. 142. The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the business units that have goodwill assigned to them. The only reporting units which have goodwill assigned to them are the businesses which were acquired and have been included in our commercial segment. We estimate the fair values of the business units using discounted cash flows. The cash flow forecasts are adjusted by an appropriate discount rate. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations used in the first step, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment.

We make assessments of impairment on an annual basis in the fourth quarter of our fiscal year or more frequently if specific events occur. In assessing the value of goodwill, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of the reporting units. If these estimates or their related assumptions change in the future, we may be required to record impairment charges that would negatively impact operating results.

The intangible assets are amortized using the straight-line method over their estimated useful lives of eight months to ten years. The technology intangible asset has several components with estimated useful lives of five to nine years, contracts and relationships intangible asset has several components with estimated useful lives of three to ten years, non-compete agreements have useful lives of three to five years and other amortizable assets have several components with estimated useful lives of eight months to ten years.

The current and expected amortization expense for each of the following periods is as follows (in thousands):

	Amortization
For the three months ended June 30, 2006	$ 2,060
Expected for the remainder of fiscal year 2007	7,142
Expected for fiscal year 2008	6,610
Expected for fiscal year 2009	5,862
Expected for fiscal year 2010	2,638
Expected for fiscal year 2011	2,147
Thereafter	4,094
	$ 28,493

Note 6 Notes Payable and Line of Credit

On January 31, 2005, we entered into a three-year, $60 million revolving credit facility (the Facility) in the form of a Second Amended and Restated Revolving Loan Agreement with Union Bank of California, Comerica Bank and Silicon Valley Bank.

Borrowings under the Facility are permitted up to a maximum amount of $60 million, including up to $15 million of letters of credit. Borrowings under the Facility bear interest, at the Company s option, at either the lender s prime rate or at LIBOR (London Interbank Offered Rate) plus, in each case, an applicable margin based on the ratio of the Company s total funded debt to EBITDA (income from operations plus depreciation and amortization). The Facility is collateralized by substantially all of the Company s personal property assets. At June 30, 2006, the Company had approximately $5.0 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of $55.0 million.

The Facility contains financial covenants that set a minimum EBITDA limit for the twelve-month period ending on the last day of any fiscal quarter at $30.0 million, a minimum tangible net worth as of the last day of any fiscal quarter

at $135.0 million and a minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter at 1.50 to 1.00. We were in compliance with our loan covenants at June 30, 2006.

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Note 7 Product Warranty

We provide limited warranties on most of our products for periods of up to five years. We record a liability for our warranty obligations when products are shipped based upon an estimate of expected warranty costs. Amounts expected to be incurred within twelve months are classified as a current liability. For mature products, the warranty costs estimates are based on historical experience with the particular product. For newer products that do not have a history of warranty costs, we base our estimates on our experience with the technology involved and the types of failure that may occur. It is possible that our underlying assumptions will not reflect the actual experience and in that case, future adjustments will be made to the recorded warranty obligation. The following table reflects the change in our warranty accrual during the three months ended June 30, 2006 and July 1, 2005 (in thousands).

	For the three months ended	
	June 30, 2006	July 1, 2005
Balance, beginning of period	$ 8,369	$ 7,179
Change in liability for warranties issued in period	1,677	1,607
Settlements made during the period	(468)	(934)
Balance, end of period	$ 9,578	$ 7,852

Note 8 Commitments and Contingencies

We are a party to various claims and legal actions arising in the normal course of business. Although, the ultimate outcome of such matters is not presently determinable, we believe that the resolution of all such matters, net of amounts accrued, will not have a material adverse effect on our financial position or liquidity; however, there can be no assurance that the ultimate resolution of these matters will not have a material impact on our results of operations in any period.

Note 9 Derivatives

During the three months ended June 30, 2006, the Company settled certain foreign exchange contracts recognizing a loss of $136,000 recorded as cost of revenues based on the underlying transaction. The Company did not enter into new foreign currency exchange contracts during the three months ended June 30, 2006. At June 30, 2006, the Company had one outstanding foreign currency exchange contract entered into in the prior year intended to reduce the foreign currency risk for amounts payable to vendors in Euros which has a maturity of less than six months. The fair value of the outstanding foreign currency contract was $2,000 and is recorded as an asset as of June 30, 2006. We had $384,000 of notional value of foreign currency forward contracts outstanding at June 30, 2006. We recorded a loss on foreign currency forward contracts for the three months ended July 1, 2005 of $235,000 as a cost of revenues based on the underlying transaction.

Note 10 Income Taxes

The effective income tax rate for the three months ended June 30, 2006 was 33.2%, which is approximately equal to the 34.0% estimated annual effective tax rate for the fiscal year ending March 30, 2007. The estimated tax rate is different from the expected statutory rate due primarily to research and development tax credits and the tax benefit for export sales.

Our estimated effective tax rate of 34.0% for fiscal year 2007 reflects the expiration of the federal research and development tax credit at December 31, 2005. If the federal research and development tax credit is reinstated, we will have a lower effective tax rate. In the event the federal tax research and development tax credit is reinstated, the amount of the reduction in our tax rate will depend on the effective date and terms of the reinstatement, as well as the amount of eligible research and development expenses in the reinstated period.

Note 11 Segment Information

Our commercial and government segments are primarily distinguished by the type of customer and the related contractual requirements. The more regulated government environment is subject to unique contractual requirements and distinctive economic characteristics which differ from the commercial segment. Therefore, we are organized primarily on the basis of products with commercial and government (defense) communication applications. Based on the Company s commercial business strategy to provide end-to-end capability with satellite communication equipment solutions, the Company implemented certain management changes during the year ended April 1, 2005 which led to the delineation of the commercial segment into two product lines: Satellite Networks and Antenna Systems. These product lines are distinguished from one another based upon their underlying technologies.

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Reporting segments are determined consistent with the way the chief operating decision maker evaluates financial information internally for making operating decisions and assessing performance. The following table summarizes revenues and operating profits by reporting segment for the three months ended June 30, 2006 and July 1, 2005. Certain corporate general and administrative costs, amortization of intangible assets and charges of acquired in-process research and development are not allocated to the segments and accordingly, are shown as reconciling items from segment operating profit and consolidated operating profit. Certain assets are not tracked by reporting segment. Depreciation expense is allocated to reporting segments as an overhead charge based on direct labor dollars within the reporting segments.

	Three months ended	
(in thousands)	**June 30, 2006**	**July 1, 2005**
Revenues		
Government	$ 64,621	$ 53,514
Commercial Satellite		
Satellite Networks	53,086	36,986
Antenna Systems	10,994	10,553
	64,080	47,539
Elimination of intersegment revenues		(1,076)
Total revenues	128,701	99,977
Operating profits (losses)		
Government	11,829	10,297
Commercial		
Satellite Networks	(1,620)	(3,103)
Antenna Systems	(354)	974
	(1,974)	(2,129)
Elimination of intersegment operating profits		(206)
Segment operating profit before corporate and amortization	9,855	7,962
Corporate	95	144
Amortization of intangible assets (1)	(2,060)	(1,512)
Income from operations	$ 7,890	$ 6,594

(1) Amortization of intangibles relate to the commercial and government segment. Amortization of intangibles for

Satellite Networks was $1.8 million and $1.3 million for the three months ended June 30, 2006 and July 1, 2005, respectively. Amortization for Antenna Systems was $164,000 and $164,000 for the three months ended June 30, 2006 and July 1, 2005, respectively. Amortization of intangibles for the government segment was $76,000 for the three months ended June 30, 2006. There was no amortization of intangibles for the government segment for the three months ended July 1, 2005.

(in thousands)	June 30, 2006	March 31, 2006
Segment assets (2)		
Government	$ 101,373	$ 77,269
Commercial		
Satellite Networks	147,600	140,346
Antenna Systems	27,419	27,330
	175,019	167,676
Corporate assets	130,249	120,124
Total	$ 406,641	$ 365,069

(2)

Assets identifiable to segments include: accounts receivable, unbilled accounts receivable, inventory, intangible assets and goodwill. At June 30, 2006, Satellite Networks had $33.6 million of goodwill and $20.1 million in net intangible assets, Antenna Systems had $3.6 million of goodwill and $1.9 million in net intangible assets, and the government segment had $11.7 million of goodwill and $6.5 million in net intangible assets. At March 31, 2006, Satellite Networks had $24.5 million of goodwill and $22.0 million in net intangible assets, and Antenna Systems had $3.6 million of goodwill and $2.0 million in net intangible assets. Government segment had no goodwill or

intangible assets on March 31, 2006.

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Revenue information by geographic area for the three month periods ended June 30, 2006 and July 1, 2005 is as follows:

	Three months ended	
(in thousands)	**June 30, 2006**	**July 1, 2005**
United States	$ 109,610	$ 82,681
Asia Pacific	5,154	7,968
Europe/Africa	9,772	3,926
North America other than United States	3,535	2,816
Latin America	630	2,586
	$ 128,701	$ 99,977

We distinguish revenues from external customers by geographic areas based on customer location.

The net book value of long-lived assets located outside the United States was $312,000 at June 30, 2006 and $341,000 at March 31, 2006.

Note 12 Acquisition

On June 20, 2006, the Company completed the acquisition of all of the outstanding capital stock of Enerdyne Technologies, Inc. (Enerdyne), a privately-held provider of innovative data link equipment and digital video systems for defense and intelligence markets, including unmanned aerial vehicle and other air-born and ground based applications. The initial purchase price of approximately $17.5 million was comprised primarily of $16.4 million related to the fair value of 744,104 shares of the Company s common stock issued at the closing date, $500,000 in cash consideration, and $700,000 in direct acquisition costs. The $1.2 million of cash consideration paid to the shareholders and the transaction expenses paid less cash acquired of $900,000 resulted in a net cash outlay of approximately $281,000. An additional $8.7 million in consideration is payable in cash and/or stock at the Company s option based on Enerdyne achieving certain earnings performance in any fiscal year up to and including the Company s 2010 fiscal year (as well as projected earnings performance for the one-year period thereafter). No portion of the earn-out is guaranteed. The additional consideration, if earned, is payable in shares of the Company s common stock after the fiscal year in which Enerdyne achieves the specified earnings performance.

The preliminary allocation of purchase price of the acquired assets and assumed liabilities based on the estimated fair values is as follows:

(in thousands)	**June 20, 2006**
Current assets	$ 3,543
Property, plant and equipment	343
Identifiable intangible assets	6,570
Goodwill	11,674
Other assets	26
Total assets acquired	22,156
Liabilities assumed	(4,666)
Total purchase price	$ 17,490

Amounts assigned to other intangible assets are being amortized on a straight-line basis over their estimated useful lives ranging from eight months to seven years and are as follows:

(in thousands)	
Customer relationships (7 year weighted average life)	$ 2,400
Acquired developed technology (4.5 year weighted average life)	2,600
Non-compete agreements (4 years weighted average life)	420
Backlog (8 months weighted average life)	1,150
Total identifiable intangible assets	$ 6,570

The acquisition of Enerdyne is complementary to ViaSat because we will benefit from their technology, namely unmanned Analog and digital video data link capabilities, existing relationships in the unmanned aerial vehicle (UAV) market, customers and highly skilled workforce. The potential opportunities these benefits provide to ViaSat s UAV applications product group in our government segment were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The intangible assets and goodwill recognized will not be deductible for federal income tax purposes. The purchase price allocation is preliminary due to resolution of certain Enerdyne tax attributes.

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The consolidated financial statements include the operating results of Enerdyne from the date of acquisition in the Company s UAV applications product line in the government segment. Pro forma results of operations have not been presented because the effect of the acquisition was insignificant to the financial statements for all periods presented.

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

The following information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in ViaSat s Annual Report on Form 10-K for the year ended March 31, 2006, filed with the Securities and Exchange Commission.

Except for the historical information contained herein, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled Factors That May Affect Future Performance and elsewhere in this Quarterly Report.

General

We are a leading provider of advanced digital satellite communications and other wireless networking and signal processing equipment and services to the government and commercial markets. Based on our history and extensive experience in complex communications systems, we believe we have developed the capability to design and implement innovative communications solutions which enhance bandwidth utilization by applying our sophisticated networking and digital signal processing techniques. Our goal is to leverage our advanced technology and capabilities to capture a considerable share of the global satellite communications equipment and services segment for both government and commercial customers. ViaSat was incorporated in 1986 and completed its initial public offering in 1996.

Our internal growth to date has historically been driven largely by our success in meeting the need for advanced communications products for the U.S. government and commercial customers. By developing cost-effective communications products incorporating our advanced technologies, we have continued to grow the markets for our products and services.

Our company is organized principally in two segments: government and commercial. Our government business encompasses specialized products and systems solutions principally serving government, aerospace and defense customers, which includes:

- Tactical data links, including multifunction information distribution system (MIDS) products and Joint Tactical Radio Systems (JTRS) development variant,
- Information security and assurance products and services, which enable military and government users to communicate secure information over secure and non-secure networks,
- Government satellite communication products and services, which provide innovative solutions to government customers to increase available bandwidth using existing satellite capacity,
- UHF DAMA satellite communications products consisting of modems, terminals and network control systems, and
- Simulation and test equipment, which allows the testing of sophisticated airborne radio equipment without expensive flight exercises.

Serving government customers with cost-effective products and solutions continues to be a critical and core element of our overall business strategy.

We have been increasing our focus in recent years on offering satellite based communications products and systems solutions to address commercial market needs. In pursuing this strategy, we have acquired four strategic satellite communication equipment providers: (1) the satellite networks business of Scientific-Atlanta in fiscal year 2001; (2) Comsat Laboratories products business from Lockheed Martin in fiscal year 2002; (3) US Monolithics, LLC

in fiscal year 2002; and (4) Efficient Channel Coding, Inc. in fiscal year 2006. Our commercial business accounted for approximately 50% and 48% of our revenues in the three months ended June 30,

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2006 and July 1, 2005, respectively, and 53% of our revenues in fiscal year 2006 and 51% of our revenues in fiscal year 2005. To date, our principal commercial offerings include Very Small Aperture Terminals (VSATs), broadband internet equipment over satellite, network control systems, network integration services, network operation services, gateway infrastructure, antenna systems and other satellite ground stations. In addition, based on our advanced satellite technology and systems integration experience, we have won several important projects in the three key broadband markets: enterprise, consumer and in-flight mobile applications.

Our commercial business offers an end-to-end capability to provide customers with a broad range of satellite communication and other wireless communications equipment solutions including:

Consumer broadband products and solutions to customers using DOCSIS®-based or DVB-RCS-based technology,

Mobile broadband products and systems for in-flight, maritime and ground mobile broadband applications,

Enterprise VSAT networks products and services,

Antenna systems for commercial and defense applications and customers,

Satellite networking systems design and technology development, and

MMIC design and development, with an emphasis in systems engineering of packaged components, specializing in high-frequency communication technology design and development.

With expertise in commercial satellite network engineering, gateway construction, and remote terminal manufacturing for all types of interactive communications services, we believe we have the ability to take overall responsibility for designing, building, initially operating, and then handing over a fully operational, customized satellite network serving a variety of markets and applications.

There are a number of large new business opportunities we are pursuing in fiscal year 2007. In the government segment, the opportunities include domestic and international MIDS orders, new joint tactical radio system contracts, additional funding for current information assurance projects, new information assurance contracts using our HAIPIS technology, and orders for our new KG-250 product. In our commercial segment, the opportunities include new production orders for consumer and mobile broadband systems, further penetration in the North American consumer and enterprise VSAT market and new antenna systems programs. The timing of these orders is not entirely predictable, so our new business awards and revenue outlook will vary somewhat from quarter-to-quarter or even year-to-year.

To date, our ability to grow and maintain our revenues has depended on our ability to identify and target high technology satellite communication and other communication markets where the customer places a high priority on the solution, and obtaining additional sizable contract awards. Due to the nature of this process, it is difficult to predict the probability and timing of obtaining these awards.

Our increased capital needs for fiscal year 2007 as compared to fiscal year 2006 will continue as we expand our facilities, production test equipment, lab development equipment and VSAT network operations to meet customer program requirements and growth forecasts. Our facility needs have normally been met with long-term lease agreements, but we do anticipate additional tenant improvements over the next two fiscal years associated with our expansion. Additionally, as our employee base increases, the need for additional computers and other equipment will also increase.

On June 20, 2006, the Company completed the acquisition of all of the outstanding capital stock of Enerdyne Technologies, Inc. (Enerdyne), a privately-held provider of innovative data link equipment and digital video systems for defense and intelligence markets, including unmanned aerial vehicle and other air-born and ground based applications. The initial purchase price of approximately $17.5 million was comprised primarily of $16.4 million related to the fair value of 744,104 shares of the Company s common stock issued at the closing date, $500,000 in cash consideration, and $700,000 in direct acquisition costs. The $1.2 million of

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cash consideration paid to the shareholders and the transaction expenses paid less cash acquired of $900,000 resulted in a net cash outlay of approximately $281,000. An additional $8.7 million in consideration is payable in cash and/or stock at the Company s option based on Enerdyne achieving certain earnings performance in any fiscal year up to and including the Company s 2010 fiscal year (as well as projected earnings performance for the one-year period thereafter). No portion of the earn-out is guaranteed. The additional consideration, if earned, is payable in shares of the Company s common stock after the fiscal year in which Enerdyne achieves the specified earnings performance.

At June 20, 2006, the Company recorded $6.6 million in identifiable intangible assets and $11.7 million in goodwill based on the fair values and the preliminary allocation of purchase price of the acquired assets and assumed liabilities. The consolidated financial statements include the operating results of Enerdyne from the date of acquisition in the Company s unmanned aerial vehicle (UAV) product application in the government segment.

The acquisition of Enerdyne is very complementary to ViaSat because we will benefit from their technology, namely unmanned Analog and digital video data link capabilities, existing relationships in the UAV market, customers and highly skilled workforce. The potential opportunities these benefits provide to ViaSat s UAV product application group in our government segment were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The intangible assets and goodwill recognized will not be deductible for federal income tax purposes. The purchase price allocation is preliminary due to resolution of certain Enerdyne tax attributes.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We consider the policies discussed below to be critical to an understanding of our financial statements because their application places the most significant demands on management s judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. We describe the specific risks for these critical accounting policies in the following paragraphs. For all of these policies, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Share-Based Payments

We grant options to purchase our common stock to our employees and directors under our stock option plans. Eligible employees can also purchase shares of our common stock at 85% of the lower of the fair market value on the first or the last day of each six-month offering period under our employee stock purchase plan. The benefits provided under these plans are share-based payments subject to the provisions of revised Statement of Financial Accounting Standards No. 123 (FAS 123R), Share-Based Payment. Effective April 1, 2006, we use the fair value method to apply the provisions of FAS 123R with a modified prospective application which provides for certain changes to the method for estimating the value of share-based compensation. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date, which are subsequently modified or cancelled. Under the modified prospective application method, prior periods are not revised for comparative purposes. Share-based compensation expense recognized under FAS 123R for the first three months of fiscal 2007 was $367,000. At June 30, 2006, total unrecognized estimated compensation expense related to non-vested stock options and the Employee Stock Purchase Plan granted prior to that date were $2.4 million and zero, respectively, which is expected to be recognized over a weighted-average period of 3.5 years.

Upon adoption of FAS 123R, we began estimating the value of stock option awards on the date of grant using a Black-Scholes option-pricing model (Black-Scholes model). Prior to the adoption of FAS 123R, the value of all share-based awards was estimated on the date of grant using the Black-Scholes model as well for the pro forma information required to be disclosed under FAS 123. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

If factors change and we employ different assumptions in the application of FAS 123R in future periods, the compensation expense that we record under FAS 123R may differ significantly from what we have recorded in the current period. Therefore, we believe it is important for investors to be aware of the high degree of subjectivity involved when using option pricing models to estimate share-

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based compensation under FAS 123R. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions, are fully transferable and do not cause dilution. Because our share-based payments have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect our estimates of fair values, in our opinion, existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those share-based payments in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, values may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the fair value of employee share-based awards is determined in accordance with FAS 123R and the Securities and Exchange Commission s Staff Accounting Bulletin No. 107 (SAB 107), using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Estimates of share-based compensation expenses can be significant to our financial statements, but these expenses are based on option valuation models and will never result in the payment of cash by us. The guidance in FAS 123R and SAB 107 is relatively new, and best practices are not well established. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of share-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

Theoretical valuation models and market-based methods are evolving and may result in lower or higher fair value estimates for share-based compensation. The timing, readiness, adoption, general acceptance, reliability and testing of these methods is uncertain. Sophisticated mathematical models may require voluminous historical information, modeling expertise, financial analyses, correlation analyses, integrated software and databases, consulting fees, customization and testing for adequacy of internal controls. Market-based methods are emerging that, if employed by us, may dilute our earnings per share and involve significant transaction fees and ongoing administrative expenses. The uncertainties and costs of these extensive valuation efforts may outweigh the benefits to investors.

The Company s expected volatility is a measure of the amount by which our stock price is expected to fluctuate. The estimated volatilities for stock options and employee stock purchase rights are based on the historical volatility calculated using the daily stock price of our stock over a recent historical period equal to the expected term. The risk-free interest rate that we use in determining the fair value of our stock-based awards is based on the implied yield on U.S. Treasury zero-coupon issues with remaining terms equivalent to the expected term of our stock-based awards.

The expected life of employee stock options represents the calculation using the simplified method for plain vanilla options applied consistently to all plain vanilla options, consistent with the guidance in SAB 107. The Company expects to replace the simplified method with the historical data method for the valuation of shares granted after December 31, 2007, as more detailed information becomes readily available to the Company, consistent with the guidance in SAB 107. The weighted average expected life of employee stock options granted during the three months ended June 30, 2006 derived from the simplified method was 6.0 years. The expected term or life of employee stock purchase rights issued represents the expected period of time from the date of grant to the estimated date that the stock purchase right under our Employee Stock Purchase Plan would be fully exercised.

Review of Stock Option Grant Procedures

We commenced a voluntary internal investigation, assisted by our outside legal counsel, of our historical stock option granting practices, stock option documentation and related accounting from our initial public offering in December 1996 to June 30, 2006. At the conclusion of our investigation (which is complete as of the date of this filing), neither our outside legal counsel nor the Company believes there is evidence of a pattern of intentionally

misdating stock option grants to achieve an accounting result, or that any officer, director, or senior executive at the Company willfully or knowingly engaged in stock options misdating, or had knowledge of others doing so.

During the investigation we identified certain accounting errors associated with stock options granted primarily to certain non-executive new hire employees during the ten-year period from December 2006 to June 30, 2006. Based on the results of our investigation, we identified that certain stock options to non-executive new hires had incorrectly been accounted for using an accounting measurement date prior to the date that the new hires commenced employment. We concluded, with the concurrence of the Audit Committee, that the financial impact of these errors was not material to our consolidated financial statements for any annual period in which the errors related. In accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraph 29, we recorded a cumulative adjustment to compensation expense in the first quarter of fiscal year 2007 of $703,000, net of tax, because the effect of the correcting adjustment is not material to our expected fiscal 2007 net income. This non-cash compensation expense will have no impact on future periods. There is no impact on revenue or net cash provided by operating activities as a result of recording the compensation expense.

Revenue recognition

A substantial portion of the Company s revenues are derived from long-term contracts requiring development and delivery of products over time and often contain fixed-price purchase options for additional products. Certain of these contracts are accounted for under the percentage-of-completion method of accounting under the American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). Sales and earnings under these contracts are recorded based on the ratio of actual costs incurred to date to total estimated costs expected to be incurred related to the contract or as products are shipped under the units-of-delivery method.

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The percentage-of-completion method of accounting requires management to estimate the profit margin for each individual contract and to apply that profit margin on a uniform basis as sales are recorded under the contract. The estimation of profit margins requires management to make projections of the total sales to be generated and the total costs that will be incurred under a contract. These projections require management to make numerous assumptions and estimates relating to items such as the complexity of design and related development costs, performance of subcontractors, availability and cost of materials, labor productivity and cost, overhead and capital costs, and manufacturing efficiency. These contracts often include purchase options for additional quantities and customer change orders for additional or revised product functionality. Purchase options and change orders are accounted for either as an integral part of the original contract or separately depending upon the nature and value of the item. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. During the three months ended June 30, 2006 and July 1, 2005, we recorded charges of approximately $1.0 million and $1.9 million, respectively, related to loss contracts.

Assuming the initial estimates of sales and costs under a contract are accurate, the percentage-of-completion method results in the profit margin being recorded evenly as revenue is recognized under the contract. Changes in these underlying estimates due to revisions in sales and future cost estimates or the exercise of contract options may result in profit margins being recognized unevenly over a contract as such changes are accounted for on a cumulative basis in the period estimates are revised.

The Company believes it has established appropriate systems and processes to enable it to reasonably estimate future cost on its programs through regular quarterly evaluations of contract costs, scheduling and technical matters by business unit personnel and management. Historically, in the aggregate, the Company has not experienced significant deviations in actual costs from estimated program costs, and when deviations that result in significant adjustments arise, we disclose the related impact in Management s Discussion and Analysis. However, a significant change in future cost estimates on one or more programs could have a material effect on the Company s results of operations. For example, a one percent variance in our future cost estimates on open fixed-price contracts as of June 30, 2006 would change our pre-tax income by approximately $341,000.

The Company also has contracts and purchase orders where revenue is recorded on delivery of products in accordance with SAB 104, Staff Accounting Bulletin No. 104: Revenue Recognition. In this situation, contracts and customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. The Company assesses whether the sales price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment, and assesses collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer s payment history.

When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value in accordance with EITF, 00-21, Accounting for Multiple Element Revenue Arrangements, and recognized when the applicable revenue recognition criteria for each element are met. The amount of product and service revenue recognized is impacted by our judgments as to whether an arrangement includes multiple elements and, if so, whether vendor-specific objective evidence of fair value exists for those elements. Changes to the elements in an arrangement and our ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition.

Capitalized software development costs

We charge costs of developing software for sale to research and development expense when incurred, until technological feasibility has been established. Software 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 unamortized cost or net realizable value. Once the product is available for general release, we amortize the software development costs based on the ratio of current to future revenue for each product with an annual minimum equal to straight-line amortization over the remaining estimated economic life of the product not to exceed five years. The determination of net realizable value involves judgment and estimates of future revenues to be derived from a product, as well as estimates of future costs of manufacturing that product. We use our experience in the marketplace in making judgments in estimating net realizable value, but our estimates may differ from the actual outcome. We

periodically assess the assumptions underlying our estimates and, if necessary, we would adjust the carrying amount of capitalized software development costs downward to our new estimate of net realizable value.

We did not capitalize any costs related to software developed for resale in the three month periods ended June 30, 2006 or July 1, 2005. Amortization expense of software development was $841,000 and $814,000 for the three months ended June 30, 2006 and July 1, 2005, respectively. These software development costs are part of other assets on the balance sheet and we record the related amortization expense as a charge to cost of revenues on the statement of operations.

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Allowance for doubtful accounts

We make estimates of the collectibility of our accounts receivable based on historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Historically, our bad debts have been minimal; a contributing factor to this is that a significant portion of our sales has been to the U.S. government. More recently, commercial customers comprise a larger part of our revenues. Our accounts receivables balance was $151.4 million, net of allowance for doubtful accounts of $356,000 as of June 30, 2006 and our accounts receivables balance was $144.7 million, net of allowance for doubtful accounts of $265,000 as of March 31, 2006.

Warranty reserves

We provide limited warranties on a majority of our products for periods of up to five years. We record a liability for our warranty obligations when we ship the products based upon an estimate of expected warranty costs. We classify the amounts we expect to incur within twelve months as a current liability. For mature products, we estimate the warranty costs based on historical experience with the particular product. For newer products that do not have a history of warranty costs, we base our estimates on our experience with the technology involved and the types of failure that may occur. It is possible that our underlying assumptions will not reflect the actual experience, and in that case, we will make future adjustments to the recorded warranty obligation.

Goodwill and other intangible assets

We account for our goodwill under Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets. The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the reporting units that have goodwill assigned to them. The only reporting units which have goodwill assigned to them are the businesses which were acquired and have been included in our commercial segment. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the reporting unit used in the first step, and is compared to its carrying value. The shortfall of the value below carrying value represents the amount of goodwill impairment. We test goodwill for impairment during the fourth quarter every fiscal year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist.

We estimate the fair values of the related operations using discounted cash flows and other indicators of fair value. We base the forecast of future cash flows on our best estimate of the future revenues and operating costs, which we derive primarily from existing firm orders, expected future orders, contracts with suppliers, labor agreements, and general market conditions. Changes in these forecasts could cause a particular reporting unit to either pass or fail the first step in the SFAS No. 142 goodwill impairment model, which could significantly influence whether a goodwill impairment needs to be recorded. We adjust the cash flow forecasts by an appropriate discount rate derived from our market capitalization plus a suitable control premium at the date of evaluation.

Impairment of long-lived assets (Property and equipment and other intangible assets)

We adopted SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets on April 1, 2002. In accordance with SFAS No. 144, we assess potential impairments to our long-lived assets, including property and equipment and other intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We recognize an impairment loss when the undiscounted cash flows expected to be generated by an asset (or group of assets) are less than the asset s carrying value. Any required impairment loss would be measured as the amount by which the asset s carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and charged to results of operations. We have not identified any such impairments.

Valuation allowance on deferred tax assets

Management evaluates the realizability of our deferred tax assets and assesses the need for a valuation allowance on a quarterly basis. In accordance with SFAS No. 109, Accounting for Income Taxes, net deferred tax assets are reduced by a valuation allowance if, based on all the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

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Derivatives

We enter into foreign currency forward and option contracts to hedge certain forecasted foreign currency transactions. Gains and losses arising from foreign currency forward and option contracts not designated as hedging instruments are recorded in investment income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts that are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as gains (losses) on derivative instruments and accrued liabilities until the underlying transaction affects our earnings and are then recorded in the same income statement line as the underlying transaction. We had $384,000 and $2.4 million of notional value of foreign currency forward contracts outstanding at June 30, 2006 and July 1, 2005, respectively.

Results of Operations

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

	Three months ended	
	June 30, 2006	**July 1, 2005**
Revenues	100.0%	100.0%
Operating expenses:		
Cost of revenues	76.2	75.7
Selling, general and administrative	12.4	12.9
Independent research and development	3.7	3.3
Amortization of intangible assets	1.6	1.5
Income from operations	6.1	6.6
Income before income taxes	6.3	6.4
Net income	4.2	5.2

The results of operations for the three-month period ended July 1, 2005 include a benefit to Cost of revenues related to legal settlement with Xetron Corporation of $2.7 million.

Three Months Ended June 30, 2006 vs. Three Months Ended July 1, 2005

Revenues

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	**June 30, 2006**	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Revenues	$128.7	$100.0	$28.7	28.7%

The increase in revenues was due to our higher beginning backlog of $374.9 million, quarterly customer awards of $133.9 million and the conversion of certain backlog and awards into revenues. Revenue increases were experienced in both our government, $11.1 million, and commercial segments, $16.5 million. The revenue increase in the government segment was predominantly derived from increased revenues in certain information assurance products of approximately $7.4 million, approximately $1.1 million in MIDS development and $2.1 million in simulation development, offset by various decreases across other government product lines. The revenue increase in the commercial segment was predominately derived from increase in revenues in Satellite Networks from consumer broadband products, approximately $14.0 million, offset by a decrease of approximately $2.0 million from our enterprise VSAT products.

Cost of Revenues

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	**June 30, 2006**	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Cost of revenues	$98.1	$75.7	$22.4	29.6%

Percentage of revenues	76.2%	75.7%

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The increase in quarterly cost of revenues from $75.7 million to $98.1 million is primarily due to the Company s increased revenues. Accordingly, the Company s gross profit increase from $24.3 million to $30.6 million reflected increases due to revenue growth in addition to improved product margin mix from the Company s consumer broadband products, which yielded margin improvements of approximately 5.6 percentage points in the Company s Satellite Networks segment from the same quarter last year. The $7.3 million in gross profit increases were offset by approximately $966,000 in stock based compensation charges recorded in the first quarter of fiscal 2007. Gross profit may fluctuate in future quarters depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

Selling, General and Administrative Expenses

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	**June 30, 2006**	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Selling, general and administrative	$15.8	$ 12.8	$ 3.0	23.3%
Percentage of revenues	12.4%	12.9%		

The increase in selling, general and administrative (SG&A) expenses in the first quarter of 2007 compared to the first quarter of 2006 was primarily attributable to higher selling and personnel costs to support our growth of approximately $2.0 million, higher facility related expenses due to the relocation of our Atlanta facilities, addition to Carlsbad facilities and ECC acquisition, approximately $300,000, and approximately $456,000 in stock based compensation expense recorded in the first quarter of fiscal 2007. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Some SG&A expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

Independent Research and Development

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	**June 30, 2006**	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Independent research and development	$4.8	$ 3.3	$ 1.5	45.0%
Percentage of revenues	3.7%	3.3%		

The increase in independent research and development (IR&D) expenses reflects year over year increases primarily in the commercial segment of $1.5 million, as planned, due to next generation VSAT equipment. The higher IR&D expenses reflect our recognition of certain opportunities in these markets and the need to invest in the development of new technologies to meet these opportunities.

Amortization of Intangible Assets The intangible assets from acquisitions completed in fiscal years 2001, 2002, 2006 and 2007 are being amortized over useful lives ranging from eight months to ten years. The amortization of intangible assets will decrease each year as the intangible assets with shorter lives become fully amortized.

The current and expected amortization expense for each of the following periods is as follows (in thousands):

	Amortization
For the three months ended June 30, 2006	$ 2,060
Expected for the remainder of fiscal year 2007	7,142
Expected for fiscal year 2008	6,610
Expected for fiscal year 2009	5,862
Expected for fiscal year 2010	2,638

Expected for fiscal year 2011	2,147
Thereafter	4,094
	$ 28,493

Interest Expense Interest expense was $91,000 for the three months ended June 30, 2006 and $151,000 for the three months ended July 1, 2005. Higher interest expense in the first quarter of fiscal year 2005 was primarily due to the Company amending its tax returns which added approximately $55,000 to interest expense in the first quarter of the prior year. We had no outstanding borrowings under our line of credit at June 30, 2006 or July 1, 2005.

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Interest Income Interest income increased to $326,000 for the three months ended June 30, 2006 from $2,000 for the three months ended July 1, 2005 due to higher average invested cash balances year over year and higher interest rates.

Provision for Income Taxes Our effective tax rate for the three months ended June 30, 2006 was approximately 33.2%, which is approximately equal to the 34.0% estimated annual effective tax rate for the fiscal year ending March 30, 2007, compared to a 19.6% tax rate for the three months ended July 1, 2005. Our estimated effective tax rate of approximately 34.0% for fiscal year 2007 reflects the expiration of the federal research and development tax credit at December 31, 2005. If the federal research and development tax credit is reinstated, we will have a lower effective tax rate. In the event the federal tax credit for research and development expenses is reinstated, the amount of the reduction in our tax rate will depend on the effective date, the terms of the reinstatement as well as the amount of eligible research and development expenses in the reinstated period.

Our Segment Results for the Three Months Ended June 30, 2006 vs. Three Months Ended July 1, 2005

Government Segment

Revenues

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	**June 30, 2006**	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Revenues	$64.6	$53.5	$11.1	20.8%

The government segment received awards of $82.9 million for the first quarter of fiscal year 2007 compared to $81.3 million for the first quarter of fiscal year 2006. Revenue increases were predominantly derived from increased revenues in certain information assurance products of approximately $7.4 million, approximately $1.1 million in MIDS development and $2.1 million in simulation development, offset by various decreases across other government product lines.

Segment Operating Profit

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	**June 30, 2006**	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Operating profit	$11.8	$10.3	$1.5	14.9%
Percentage of government segment revenues	18.3%	19.2%		

The increase in government segment operating profit was primarily related to higher revenues as gross margins percentages remained relatively flat compared to the first quarter of last year. The increase in gross margins dollars was partially offset by higher selling costs of $451,000.

Commercial Segment

Revenues

	Three months ended		Dollar Increase	Percentage Increase
	June 30, 2006	**July 1, 2005**	**(Decrease)**	**(Decrease)**
Satellite Networks				
(In millions, except percentages)				
Revenues	$53.1	$37.0	$16.1	43.5%
Antenna Systems				
(In millions, except percentages)				
Revenues	$11.0	$10.6	$ 0.4	4.2%

Total Commercial Segment				
(In millions, except percentages)				
Revenues	$64.1	$47.5	$16.5	34.8%

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The increase in commercial segment revenues reflects higher sales in both the satellite networks and antenna systems product lines. The higher Satellite Networks revenue and Antenna Systems revenue is attributable to higher year over year backlog and the conversion of certain backlog to revenue. The majority of the increase was attributable to sales growth from consumer broadband products, approximately $14.0 million, offset by a decrease of approximately $2.0 million from our enterprise VSAT products.

Segment Operating Profit

	Three months ended		Dollar Increase	Percentage Increase
	June 30, 2006	July 1, 2005	(Decrease)	(Decrease)
Satellite Networks				
(In millions, except percentages)				
Satellite Networks operating profit (loss)	$(1.6)	$ (3.1)	$ 1.5	47.8%
Percentage of Satellite Network revenues	(3.1)%	(8.4)%		
Antenna Systems				
(In millions, except percentages)				
Antenna Systems operating (loss) profit	$(0.4)	$ 1.0	$ (1.3)	(136.3)%
Percentage of Antenna Systems revenues	(3.2)%	9.2%		
Total Commercial Segment				
(In millions, except percentages)				
Segment operating profit (loss)	$(2.0)	$ (2.1)	$ 0.2	7.3%
Percentage of commercial segment revenues	(3.1)%	(4.5)%		

The decrease in commercial segment operating losses is primarily due to increased revenues and gross margin percentages from our consumer broadband products in the Satellite Networks product group, offset by increases in IR&D expenses of $1.5 million as planned, for next generation VSAT equipment, lower Antenna Systems margins of $1.2 million and additional facility costs incurred in the quarter for new operations facility in Atlanta.

Backlog

As reflected in the table below, both funded and total firm backlog increased during the first three months of fiscal year 2007 with the increase coming from our government segment.

	June 30, 2006	March 31, 2006
	(in millions)	
Firm backlog		
Government segment	$ 201.7	$ 183.7
Commercial segment	178.4	191.2
Total	$ 380.1	$ 374.9
Funded backlog		
Government segment	$ 154.1	$ 132.9
Commercial segment	178.4	190.7
Total	$ 332.5	$ 323.6
Contract options	$ 36.9	$ 13.8

The firm backlog does not include contract options. Of the $380.1 million in firm backlog, approximately $236.0 million is expected to be delivered during the remaining nine months of fiscal year 2007, and the balance is expected to be delivered in fiscal year 2008 and thereafter. We include in our backlog only those orders for which we have accepted purchase orders.

Backlog is not necessarily indicative of future sales. A majority of our contracts can be terminated at the convenience of the customer 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, contracts may present product specifications that require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related contacts.

The backlog amounts as presented are comprised of funded and unfunded components. Funded backlog represents the sum of contract amounts for which funds have been specifically obligated by customers to contracts. Unfunded backlog (primarily associated with our government segment contracts) 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 contracts in backlog is dependent upon adequate funding for such contracts. Although funding of our 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.

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Liquidity and Capital Resources

We have financed our operations to date primarily with cash flows from operations, bank line of credit financing and equity financing. The general cash needs of our government and commercial segments can vary significantly and depend on the type and mix of contracts (i.e. product or service, development or production, timing of payments, etc.) in backlog, the quality of the customer (i.e. U.S. government or commercial, domestic or international) and the duration of the contract. In addition, for both of our segments, program performance significantly impacts the timing and amount of cash flows. If a program is performing and meeting its contractual requirements, then the cash flow requirements are usually lower.

The cash needs of the government segment tend to be more of a function of the type of contract rather than customer quality. Also, U.S. government procurement regulations tend to restrict the timing of cash payments on the contract. In the commercial segment, our cash needs are driven primarily by the quality of the customer and the type of contract. The quality of the customer will typically affect the specific contract cash flow and whether financing instruments are required by the customer. In addition, the commercial environment tends to provide for more flexible payment terms with customers, including advance payments.

Cash provided by operating activities for the first three months of fiscal year 2007 was $7.9 million as compared to $6.8 million for the first three months of fiscal year 2006. The increase in cash provided by operating activities was primarily attributable to the slight increase in net income and the increase in non-cash add-backs of $3.6 million offset by $2.7 million in additional cash outlays to funds changes in other operating assets and liabilities. Billed accounts receivable increased from year end due to increased shipments in both our government and commercial segments and the achievement of program milestones. Unbilled accounts receivable increased mostly due to increases in our MIDS production and development programs partially offset by continued reduction in consumer broadband programs.

Cash used in investing activities for the first three months of fiscal year 2007 was $2.5 million as compared to cash used in investing activities for the first three months of fiscal year 2006 of $3.6 million. The decrease in cash used in investing activities primarily relates to a decrease in asset purchases for our new facilities in Carlsbad and Atlanta in fiscal year 2007 as both facilities were completed at the end of fiscal year 2006, offset by capital increases from production test equipment to support our growth.

Cash provided by financing activities for the first three months of fiscal year 2007 was $4.1 million as compared to cash provided by financing activities for the first three months of fiscal year 2006 of $1.4 million. Majority of the activity for both years is due to cash received from the exercise of employee stock options, and stock purchases through our stock purchase plan. The three months ended June 30, 2006 also includes $399,000 in cash inflows related to the incremental tax benefit from stock option exercises.

At June 30, 2006, we had $46.4 million in cash, cash equivalents and short-term investments, $157.6 million in working capital and no outstanding borrowings under our line of credit. We had $5.0 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of $55.0 million. At March 31, 2006, we had $36.9 million in cash and cash equivalents and short-term investments, $152.9 million in working capital and no outstanding borrowings under our line of credit.

On January 31, 2005, we entered into a three-year, $60 million revolving credit facility (the Facility) with Union Bank of California, Comerica Bank and Silicon Valley Bank.

Borrowings under the Facility are permitted up to a maximum amount of $60 million, including up to $15 million of letters of credit. Borrowings under the Facility bear interest, at our option, at either the lender s prime rate or at LIBOR (London Interbank Offered Rate) plus, in each case, an applicable margin based on the ratio of ViaSat s total funded debt to EBITDA (income from operations plus depreciation and amortization). The Facility is collateralized by substantially all of ViaSat s personal property assets.

The Facility contains financial covenants that set a minimum EBITDA limit for the twelve-month period ending on the last day of any fiscal quarter at $30 million, a minimum tangible net worth as of the last day of any fiscal quarter at $135 million and a minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter at 1.50 to 1.00. We were in compliance with our loan covenants at June 30, 2006.

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In June 2004 we filed a universal shelf registration statement with the Securities and Exchange Commission for the future sale of up to $154 million of debt securities, common stock, preferred stock, depositary shares and warrants. Additionally, ViaSat has available $46 million of these securities, which were previously registered under a shelf registration statement ViaSat originally filed in September 2001. Up to $200 million of the securities may now be offered from time to time, separately or together, directly by us or through underwriters at amounts, prices, interest rates and other terms to be determined at the time of the offering. We currently intend to use the net proceeds from the sale of the securities under the shelf registration statement for general corporate purposes, including acquisitions, capital expenditures and working capital.

An additional $8.7 million in consideration is payable in cash and/or stock at the Company s option based on Enerdyne achieving certain earnings performance in any fiscal year up to and including the Company s 2010 fiscal year (as well as projected earnings performance for the one-year period thereafter). No portion of the earn-out is guaranteed. The additional consideration, if earned, is payable in shares of the Company s common stock after the fiscal year in which Enerdyne achieves the specified earnings performance.

Our future capital requirements will depend upon many factors, including the expansion of our research and development and marketing efforts and the nature and timing of orders. Additionally, we will continue to evaluate possible acquisitions of, or investments in complementary businesses, products and technologies which may require the use of cash. We believe that our current cash balances and net cash expected to be provided by operating activities will be sufficient to meet our operating requirements for at least the next twelve months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position. The sale of additional securities could result in additional dilution of our stockholders. We invest our cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

Contractual Obligations

The following table sets forth a summary of our obligations under operating leases, irrevocable letters of credit, purchase commitments and other long-term liabilities for the periods indicated (in thousands):

		For the remainder of	For the fiscal years		
	Total	**fiscal year 2007**	**2008-2009**	**2010-2011**	**After 2011**
Operating leases	$ 88,854	$ 6,500	$ 18,186	$ 18,437	$ 45,731
Standby letters of credit	5,044	1,351	1,250	2,443	
Purchase commitments	131,132	72,577	58,195	360	
Total	$ 225,030	$ 80,428	$ 77,631	$ 21,240	$ 45,731

We purchase components from a variety of suppliers and use several subcontractors and contract manufacturers to provide design and manufacturing services for our products. During the normal course of business, we enter into agreements with subcontractors, contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or that establish the parameters defining our requirements. In certain instances, these agreements allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to firm orders being placed. Consequently, only a portion of our reported purchase commitments arising from these agreements are firm, non-cancelable and unconditional commitments.

Recent Accounting Requirements

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its consolidated financial

statements.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements at June 30, 2006 as defined in Regulation S-K Item 303(a)(4).

Factors That May Affect Future Performance

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report, including our financial statements and the related notes.

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A Significant Portion of Our Revenues Is Derived from a Few of Our Contracts

A small number of our contracts account for a significant percentage of our revenues. Our largest revenue producing contracts are related to our tactical data links (which includes MIDS) products generating approximately 23% of our revenues in the first three months of fiscal year 2007, 24% of our revenues in fiscal year 2006 and 22% of our revenues in fiscal year 2005. Our five largest contracts generated approximately 53% of our revenues in the first three months of fiscal year 2007, 44% of our revenues in fiscal year 2006 and 27% of our revenues in fiscal year 2005. Further, we derived approximately 16% of our revenues in the first three months of fiscal year 2007, 19% of our revenues in fiscal year 2006 and 26% of our revenues in fiscal year 2005 from sales of VSAT communications networks. The failure of these customers to place additional orders or to maintain these contracts with us for any reason, including any downturn in their business or financial condition, or our inability to renew our contracts with these customers or obtain new contracts when they expire, could materially harm our business and impair the value of our common stock.

If Our Customers Experience Financial or Other Difficulties, Our Business Could Be Materially Harmed

A number of our commercial customers have in the past, and may in the future experience financial difficulties. Many of our commercial customers face risks that are similar to those we encounter, including risks associated with market growth, product defects, acceptance by the market of products and services, and the ability to obtain sufficient capital. Further, many of our customers that provide satellite based services (including WildBlue, Telesat, Intelsat, Shin Satellite, Boeing and AIRINC) could be materially affected by a satellite failure and/or satellite launch failure. We cannot assure you that our customers will be successful in managing these risks. If our customers do not successfully manage these types of risks, it could impair our ability to generate revenues, collect amounts due from these customers and materially harm our business.

Major communications infrastructure programs, such as proposed satellite communications systems, are important sources of our current and planned future revenues. We also participate in a number of defense programs. Programs of these types often cannot proceed unless the customer can raise substantial funds, from either governmental or private sources. As a result, our expected revenues can be adversely affected by political developments or by conditions in private and public capital markets. They can also be adversely affected if capital markets are not receptive to a customer s proposed business plans. If our customers are unable to raise adequate funds it could materially harm our business and impair the value of our common stock.

Our Development Contracts May Be Difficult for Us to Comply With and May Expose Us to Third-Party Claims for Damages

We are often party to government and commercial contracts involving the development of new products. We derived approximately 26% of our revenues in the first three months of fiscal year 2007, 25% of our revenues in fiscal year 2006 and 24% of our revenues in fiscal year 2005 from these development contracts. These contracts typically contain strict performance obligations and project milestones. We cannot assure you we will comply with these performance obligations or meet these project milestones in the future. If we are unable to comply with these performance obligations or meet these milestones, our customers may terminate these contracts and, under some circumstances, recover damages or other penalties from us. We are not currently, nor have we always been, in compliance with all outstanding performance obligations and project milestones. In the past, when we have not complied with the performance obligations or project milestones in a contract, generally, the other party has not elected to terminate the contract or seek damages from us. However, we cannot assure you in the future other parties will not terminate their contracts or seek damages from us. If other parties elect to terminate their contracts or seek damages from us, it could materially harm our business and impair the value of our common stock.

We Face Potential Product Liability Claims

We may be exposed to legal claims relating to the products we sell or the services we provide. Our agreements with our customers generally contain terms designed to limit our exposure to potential product liability claims. We also maintain a product liability insurance policy for our business. However, our insurance may not cover all relevant claims or may not provide sufficient coverage. If our insurance coverage does not cover all costs resulting from future product liability claims, it could materially harm our business and impair the value of our common stock.

We May Experience Losses from Our Fixed-Price Contracts

Approximately 85% of our revenues for the first three months of fiscal year 2007, 88% of our revenues in fiscal year 2006 and 88% of our revenues in fiscal year 2005 were derived from government and commercial contracts with fixed prices. We assume greater financial risk on fixed-price contracts than on other types of contracts because if we do not anticipate technical problems, estimate

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costs accurately or control costs during performance of a fixed-price contract, it may significantly reduce our net profit or cause a loss on the contract. In the past, we have experienced significant cost overruns and losses on fixed price contracts. We believe a high percentage of our contracts will be at fixed prices in the future. Although we attempt to accurately estimate costs for fixed-price contracts, we cannot assure you our estimates will be adequate or that substantial losses on fixed-price contracts will not occur in the future. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

Changes in Financial Accounting Standards or Practices or Existing Taxation Rules or Practices May Cause Adverse Unexpected Fluctuations and Affect Our Reported Results of Operations.

Financial accounting standards in the U.S. are constantly under review and may be changed from time to time. We are required to apply these changes when adopted. Once implemented, these changes could result in material fluctuations in our financial results of operations on a quarterly or annual basis and the manner in which such results of operations are reported. Similarly, we are subject to taxation in the U.S. and a number of foreign jurisdictions. Rates of taxation, definitions of income, exclusions from income, and other tax policies (i.e. research credits and manufacturing deductions) are subject to change over time. Changes in tax laws in a jurisdiction in which we have reporting obligations could have a material impact on our results of operations and impair the value of our common stock.

Our Reliance on a Limited Number of Third Parties to Manufacture and Supply Our Products Exposes Us to Various Risks

Our internal manufacturing capacity is limited and we do not intend to expand our capability in the foreseeable future. We rely on a limited number of contract manufacturers to produce our products and expect to rely increasingly on these manufacturers in the future. In addition, some components, subassemblies and services necessary for the manufacture of our products are obtained from a sole supplier or a limited group of suppliers.

Our reliance on contract manufacturers and on sole suppliers or a limited group of suppliers involves several risks. We may not be able to obtain an adequate supply of required components, and our control over the price, timely delivery, reliability and quality of finished products may be reduced. The process of manufacturing our products and some of our components and subassemblies is extremely complex. We have in the past experienced and may in the future experience delays in the delivery of, and quality problems with, products and components and subassemblies from vendors. Some of the suppliers we rely upon have relatively limited financial and other resources. Some of our vendors have manufacturing facilities in areas that may be prone to natural disasters and other natural occurrences that may affect their ability to perform and deliver under our contract. If we are not able to obtain timely deliveries of components and subassemblies of acceptable quality or if we are otherwise required to seek alternative sources of supply, or to manufacture our finished products or components and subassemblies internally, it could delay or prevent us from delivering our systems promptly and at high quality. This failure could damage relationships with current or prospective customers, which, in turn, could materially harm our business and impair the value of our common stock.

The Markets We Serve Are Highly Competitive and Our Competitors May Have Greater Resources Than Us

The wireless and satellite communications industry is highly competitive and competition is increasing. In addition, because the markets in which we operate are constantly evolving and characterized by rapid technological change, it is difficult for us to predict whether, when and who may introduce new competing technologies, products or services into our markets. Currently, we face substantial competition from domestic and international wireless and ground-based communications service providers in the commercial and government industries. Many of our competitors and potential competitors have significant competitive advantages, including strong customer relationships, more experience with regulatory compliance, greater financial and management resources, and control over central communications networks. In addition, some of our customers continuously evaluate whether to develop and manufacture their own products and could elect to compete with us at any time. Increased competition from any of these or other entities could materially harm our business and impair the value of our common stock.

We Depend on a Limited Number of Key Employees Who Would Be Difficult to Replace

We depend on a limited number of key technical, marketing and management personnel to manage and operate our business. In particular, we believe our success depends to a significant degree on our ability to attract and retain highly skilled personnel, including our Chairman and Chief Executive Officer, Mark D. Dankberg, and those highly skilled

design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for these types of personnel is intense, and the loss of key employees could materially harm our business and impair the value of our common stock. We do not have employment agreements with any of our officers.

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Because We Conduct Business Internationally, We Face Additional Risks Related to Global Political and Economic Conditions and Currency Fluctuations

Approximately 15% of our revenues for the first three months of fiscal year 2007, 18% of our revenues in fiscal year 2006 and 27% of our revenues in fiscal year 2005 were derived from international sales. We anticipate international sales will account for an increasing percentage of our revenues over the next several years. Many of these international sales may be denominated in foreign currencies. Because we do not currently engage in nor do we anticipate engaging in material foreign currency hedging transactions related to international sales, a decrease in the value of foreign currencies relative to the U.S. dollar could result in losses from transactions denominated in foreign currencies. This decrease in value could also make our products less price-competitive.

There are additional risks in conducting business internationally, including:

unexpected changes in regulatory requirements,

increased cost of localizing systems in foreign countries,

increased sales and marketing and research and development expenses,

availability of suitable export financing,

timing and availability of export licenses,

tariffs and other trade barriers,

political and economic instability,

challenges in staffing and managing foreign operations,

difficulties in managing distributors,

potentially adverse tax consequences,

potential difficulty in making adequate payment arrangements, and

potential difficulty in collecting accounts receivable.

In addition, some of our customer purchase agreements are governed by foreign laws, which may differ significantly from U.S. laws. We may be limited in our ability to enforce our rights under these agreements and to collect damages, if awarded. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

Our Operating Results Have Varied Significantly from Quarter to Quarter in the Past and, if They Continue to do so, the Market Price of Our Common Stock Could Be Impaired

Our operating results have varied significantly from quarter to quarter in the past and may continue to do so in the future. The factors that cause our quarter-to-quarter operating results to be unpredictable include:

a complex and lengthy procurement process for most of our customers or potential customers,

changes in the levels of research and development spending, including the effects of associated tax credits,

cost overruns on fixed price development contracts,

the difficulty in estimating costs over the life of a contract, which may require adjustment in future periods,

the timing, quantity and mix of products and services sold,

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price discounts given to some customers,

market acceptance and the timing of availability of our new products,

the timing of customer payments for significant contracts,

one time charges to operating income arising from items such as acquisition expenses and write-offs of assets related to customer non-payments or obsolescence,

the failure to receive an expected order or a deferral of an order to a later period, and

general economic and political conditions.

As a result, we believe period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely upon them as indicators of future performance. If we are unable to address any of the risks described above, it could materially impair the value of our common stock. In addition, it is likely that in one or more future quarters our results may fall below the expectations of analysts and investors. In this event, the trading price of our common stock would likely decrease.

Our Reliance on U.S. Government Contracts Exposes Us to Significant Risks

Our government segment revenues were approximately 50% of our revenues in the first three months of fiscal year 2007, 49% of our revenues in fiscal year 2006 and 51% of our revenues in fiscal year 2005, and were derived from U.S. government applications. Our U.S. government business will continue to represent a significant portion of our revenues for the foreseeable future. U.S. government business exposes us to various risks, including:

unexpected contract or project terminations or suspensions,

unpredictable order placements, reductions or cancellations,

reductions in government funds available for our projects due to government policy changes, budget cuts and contract adjustments,

the ability of competitors to protest contractual awards,

penalties arising from post-award contract audits,

cost audits in which the value of our contracts may be reduced,

higher-than-expected final costs, particularly relating to software and hardware development, for work performed under contracts where we commit to specified deliveries for a fixed price,

limited profitability from cost-reimbursement contracts under which the amount of profit is limited to a specified amount, and

unpredictable cash collections of unbilled receivables that may be subject to acceptance of contract deliverables by the customer and contract close-out procedures, including government approval of final indirect rates.

In addition, substantially all of our U.S. government backlog scheduled for delivery can be terminated at the convenience of the U.S. government because our contracts with the U.S. government typically provide that orders may be terminated with limited or no penalties. If we are unable to address any of the risks described above, it could materially harm our business and impair the value of our common stock.

Our Credit Facility Contains Restrictions that Could Limit Our Ability to Implement Our Business Plan

The restrictions contained in our line of credit may limit our ability to implement our business plan, finance future operations, respond to changing business and economic conditions, secure additional financing, and engage in opportunistic transactions, such as strategic acquisitions. In addition, if we fail to meet the covenants contained in our line of credit, our ability to borrow under our line of credit may be restricted. The line of credit, among other things, restricts our ability to do the following:

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incur additional indebtedness,

create liens on our assets,

make certain payments, including payments of dividends in respect of capital stock,

consolidate, merge and sell assets,

engage in certain transactions with affiliates, and

make acquisitions.

In addition, the line of credit requires us to satisfy the following financial tests:

minimum EBITDA (income from operations plus depreciation and amortization) for the twelve-month period ending on the last day of any fiscal quarter of $30 million,

minimum tangible net worth as of the last day of any fiscal quarter of $135 million, and

minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter of 1.50 to 1.00.

In the past we have violated our credit facility covenants and received waivers for these violations. We cannot assure that we will be able to comply with our financial or other covenants or that any covenant violations will be waived in the future. Any violation not waived could result in an event of default, permitting the lenders to suspend commitments to make any advance, to declare notes and interest thereon due and payable, and to require any outstanding letters of credit to be collateralized by an interest bearing cash account, any or all of which could have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to comply with our financial or other covenants, we may need additional financing in order to service or extinguish our indebtedness. We may not be able to obtain financing or refinancing on terms acceptable to us, if at all.

Our Success Depends on the Development of New Satellite and Other Wireless Communications Products and Our Ability to Gain Acceptance of These Products

The wireless and satellite communications markets are subject to rapid technological change, frequent new and enhanced product introductions, product obsolescence and changes in user requirements. Our ability to compete successfully in these markets depends on our success in applying our expertise and technology to existing and emerging satellite and other wireless communications markets. Our ability to compete in these markets also depends in large part on our ability to successfully develop, introduce and sell new products and enhancements on a timely and cost-effective basis that respond to ever-changing customer requirements. Our ability to successfully introduce new products depends on several factors, including:

successful integration of various elements of our complex technologies and system architectures,

timely completion and introduction of new product designs,

achievement of acceptable product costs,

timely and efficient implementation of our manufacturing and assembly processes and cost reduction efforts,

establishment of close working relationships with major customers for the design of their new wireless communications systems incorporating our products,

development of competitive products and technologies by competitors,

marketing and pricing strategies of our competitors with respect to competitive products, and

market acceptance of our new products.

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We cannot assure you our product or technology development efforts for communications products will be successful or any new products and technologies we develop, including ArcLight®, KG-250, MIDS-JTRS, Surfbeam® (our DOCSIS®-based consumer broadband product), DVB-S2 and LinkStar®, will achieve sufficient market acceptance. We may experience difficulties that could delay or prevent us from successfully selecting, developing, manufacturing or marketing new products or enhancements. In addition, defects may be found in our products after we begin deliveries that could result in the delay or loss of market acceptance. If we are unable to design, manufacture, integrate and market profitable new products for existing or emerging communications markets, it could materially harm our business and impair the value of our common stock.

We Expect to Incur Research and Development Costs, Which Could Significantly Reduce Our Profitability

Our future growth depends on penetrating new markets, adapting existing communications products to new applications, and introducing new communications products that achieve market acceptance. Accordingly, we are actively applying our communications expertise to design and develop new hardware and software products and enhance existing products. We spent $4.8 million in the first three months of fiscal year 2007, $15.8 million in fiscal year 2006 and $8.1 million in fiscal year 2005 in research and development activities. We expect to continue to spend discretionary funds on research and development in the near future. The amount of funds spent on research and development projects is dependent on the amount and mix of customer funded development, the types of technology being developed and the affordability of the technology being developed. Because we account for research and development as an operating expense, these expenditures will adversely affect our earnings in the near future. Our research and development program may not produce successful results, which could materially harm our business and impair the value of our common stock.

Our Ability to Protect Our Proprietary Technology is Limited and Infringement Claims Against Us Could Restrict Our Ability to Conduct Business

Our success depends significantly on our ability to protect our proprietary rights to the technologies we use in our products and services. If we are unable to protect our proprietary rights adequately, our competitors could use the intellectual property we have developed to enhance their own products and services, which could materially harm our business and impair the value of our common stock. We currently rely on a combination of patents, trade secret laws, copyrights, trademarks, service marks and contractual rights to protect our intellectual property. We cannot assure you the steps we have taken to protect our proprietary rights are adequate. Also, we cannot assure you our issued patents will remain valid or that any pending patent applications will be issued. Additionally, the laws of some foreign countries in which our products are or may be sold do not protect our intellectual property rights to the same extent as do the laws of the United States.

Litigation may often be necessary to protect our intellectual property rights and trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. We believe infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims will likely be asserted against us in the future. If any claims or actions are asserted against us, we may seek to obtain a license under a third party s intellectual property rights. We cannot assure you, however, that a license will be available under reasonable terms or at all. Litigation of intellectual property claims could be extremely expensive and time consuming, which could materially harm our business, regardless of the outcome of the litigation. If our products are found to infringe upon the rights of third parties, we may be forced to incur substantial costs to develop alternative products. We cannot assure you we would be able to develop alternative products or, if these alternative products were developed, they would perform as required or be accepted in the applicable markets. Also, we have delivered certain technical data and information to the U.S. government under procurement contracts, and it may have unlimited rights to use that technical data and information. There can be no assurance that the U.S. government will not authorize others to use that data and information to compete with us. If we are unable to address any of the risks described above relating to the protection of our proprietary rights or the U.S. government s rights with respect to certain technical data and information, it could materially harm our business and impair the value of our common stock.

Compliance with Changing Regulation of Corporate Governance and Public Disclosure May Result in Additional Expenses

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Stock Market rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure

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and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting and our independent registered public accounting firm s audit of that assessment has required, and is likely to continue to require, the commitment of significant financial and managerial resources, which could materially harm our business and impair the value of our common stock.

We May Identify Material Weaknesses in the Future

In the past we have identified a material weakness in internal control over financial reporting. From time to time, we have also experienced deficiencies in internal control over financial reporting that have not risen to the level of a material weakness. Although we have been able to remediate the material weakness and certain internal control deficiencies in the past, we cannot assure you in the future that a material weakness will not exist. If this would be the case, and we cannot timely remediate such material weakness, management may conclude that our internal control over financial reporting is not operating effectively or our independent registered public accounting firm may be required to issue an adverse opinion on our internal control over financial reporting, which could in either case adversely affect investor confidence and impair the value of our common stock.

Changes in Financial Accounting Standards Related to Stock Option Expenses Are Expected to Have a Significant Effect on Our Reported Results

The Financial Accounting Standards Board (FASB) issued a revised standard that required that we record compensation expense in the statement of operations for employee stock options using the fair value method beginning on April 1, 2006. The adoption of the new standard has had and is expected to continue to have a significant effect on our reported earnings and could adversely impact our ability to provide accurate guidance on our future reported financial results due to the variability of the factors used to establish the value of stock options. As a result, the impact of the new standard in fiscal year 2007 could impair the value of our common stock and result in greater stock price volatility.

Any Failure to Successfully Integrate Strategic Acquisitions Could Adversely Affect Our Business

In order to position ourselves to take advantage of growth opportunities, we have made, and may continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include:

- the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner,
- the challenges in achieving strategic objectives, cost savings and other benefits expected from acquisitions,
- the risk our markets do not evolve as anticipated and the technologies acquired do not prove to be those needed to be successful in those markets,
- the potential loss of key employees of the acquired businesses,
- the risk of diverting the attention of senior management from the operations of our business,
- the risks of entering markets in which we have less experience, and
- the risks of potential disputes concerning indemnities and other obligations that could result in substantial costs and further divert management s attention and resources.

Any failure to successfully integrate strategic acquisitions could harm our business and impair the value of our common stock. Furthermore, to complete future acquisitions we may issue equity securities, incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could cause our

earnings per share to decline.

Exports of Our Defense Products are Subject to the International Traffic in Arms Regulations and Require a License from the U.S. Department of State Prior to Shipment

We must comply with the United States Export Administration Regulations and the International Traffic in Arms Regulations, or ITAR. Our products that have military or strategic applications are on the munitions list of the ITAR and require an individual

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validated license in order to be exported to certain jurisdictions. Any changes in export regulations may further restrict the export of our products, and we may cease to be able to procure export licenses for our products under existing regulations. The length of time required by the licensing process can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restriction on the export of a significant product line or a significant amount of our products could cause a significant reduction in net sales.

Adverse Regulatory Changes Could Impair Our Ability to Sell Products

Our products are incorporated into wireless communications systems that must comply with various government regulations, including those of the Federal Communications Commission (FCC). In addition, we operate and provide services to customers through the use of several satellite earth hub stations, which are licensed by the FCC. Regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by (1) restricting development efforts by us and our customers, (2) making our current products less attractive or obsolete, or (3) increasing the opportunity for additional competition. Changes in, or our failure to comply with, applicable regulations could materially harm our business and impair the value of our common stock. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards for these products and services, generally following extensive investigation of and deliberation over competing technologies. The delays inherent in this government approval process have caused and may continue to cause our customers to cancel, postpone or reschedule their installation of communications systems. This, in turn, may have a material adverse effect on our sales of products to our customers.

Our Executive Officers and Directors Own a Large Percentage of Our Common Stock and Exert Significant Influence Over Matters Requiring Stockholder Approval

As of August 4, 2006, our executive officers and directors and their affiliates beneficially owned an aggregate of approximately 19% of our common stock. Accordingly, these stockholders may be able to significantly influence the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions. These stockholders may exercise this ability in a manner that advances their best interests and not necessarily those of other stockholders. This ownership interest could also have the effect of delaying or preventing a change in control.

We Have Implemented Anti-Takeover Provisions That Could Prevent an Acquisition of Our Business at a Premium Price

Some of the provisions of our certificate of incorporation and bylaws could discourage, delay or prevent an acquisition of our business at a premium price. These provisions:

permit the Board of Directors to increase its own size and fill the resulting vacancies,

provide for a Board comprised of three classes of directors with each class serving a staggered three-year term,

authorize the issuance of preferred stock in one or more series, and

prohibit stockholder action by written consent.

In addition, Section 203 of the Delaware General Corporation Law imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock.

Our Forward-looking Statements are Speculative and May Prove to be Wrong

Some of the information in this Quarterly Report involves forward-looking statements. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Quarterly Report that are not historical facts. When used in this Quarterly Report, the words expects, anticipates, intends, plans, believes, seeks, estimates, could, should, may, will are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors, including the factors discussed in this Factors That May Affect Future Performance section of the Quarterly Report, that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements.

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Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Our financial instruments consist of cash and cash equivalents, short-term investments, trade accounts receivable, accounts payable, and short-term obligations including the revolving line of credit. We consider investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents. Our exposure to market risk for changes in interest rates relates primarily to short-term investments and short-term obligations. As a result, we do not expect fluctuations in interest rates to have a material impact on the fair value of these securities.

As of June 30, 2006, there was a foreign currency exchange contract outstanding which was intended to reduce the foreign currency risk for amounts payable to vendors in Euros. The foreign exchange contract with a notional amount of $384,000 had a fair value of a net asset of $2,000 as of June 30, 2006. The fair value of this foreign currency forward contract as of June 30, 2006, would have changed by $39,000 if the foreign currency exchange rate for the Euro to the U.S. dollar on this forward contract had changed by 10%. The fair value of our foreign currency forward contracts was a liability of $34,000 at July 1, 2005, and we had $2.4 million of notional value of foreign currency forward contracts outstanding at July 1, 2005.

Item 4. ***Controls and Procedures***

We maintain disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified and pursuant to the requirements of the Securities and Exchange Commission s rules and forms. We carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of June 30, 2006, the end of the period covered by this Quarterly Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2006.

During the period covered by this Quarterly Report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

A review of our current litigation is disclosed in the Notes to Condensed Consolidated Financial Statements. See Notes to Condensed Consolidated Financial Statements Note 8 Commitments and Contingencies.

Item 1A. Risk Factors

Please refer to the section Factors That May Affect Future Performance in Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of risk factors.

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Item 6. Exhibits

31.1	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

VIASAT, INC.

August 9, 2006

/s/ Mark D. Dankberg

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

/s/ Ronald G. Wangerin

Ronald G. Wangerin
Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)