VIASAT INC
Form 10-Q
February 08, 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 December 30, 2005.

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes þ No 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 February 2, 2006 was 27,431,387.

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

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

	December 30, 2005	April 1, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 22,075	$ 14,579
Short-term investments	163	162
Accounts receivable, net	157,498	141,298
Inventories	40,086	36,612
Deferred income taxes	6,986	7,027
Prepaid expenses and other current assets	6,905	10,114
Total current assets	233,713	209,792
Goodwill	28,133	19,492
Other intangible assets, net	26,068	20,990
Property and equipment, net	39,207	33,278
Other assets	17,965	18,273
Total assets	$ 345,086	$ 301,825
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 44,454	$ 38,523
Accrued liabilities	40,909	32,410
Total current liabilities	85,363	70,933
Other liabilities	7,250	3,911
Total liabilities	92,613	74,844
Commitments and contingencies (Note 8)		
Minority interest in consolidated subsidiary	696	698
Stockholders equity:		
Common stock	3	3
Paid in capital	172,233	163,819
Retained earnings	80,045	62,288
Deferred compensation	(250)	
Accumulated other comprehensive (loss) income	(254)	173
Total stockholders equity	251,777	226,283
Total liabilities and stockholders equity	$ 345,086	$ 301,825

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		Nine months ended	
	December 30, 2005	December 31, 2004	December 30, 2005	December 31, 2004
Revenues	$ 111,608	$ 88,187	$ 315,697	$ 255,000
Cost of revenues	83,685	68,472	237,560	194,056
Gross profit	27,923	19,715	78,137	60,944
Operating expenses:				
Selling, general and administrative	14,724	11,395	40,897	34,440
Independent research and development	3,528	1,941	10,389	5,360
Amortization of intangible assets	1,694	1,512	4,718	5,130
Income from operations	7,977	4,867	22,133	16,014
Other income (expense):				
Interest income	161		168	22
Interest expense	(56)	(32)	(238)	(91)
Income before income taxes	8,082	4,835	22,063	15,945
Provision (benefit) for income taxes	1,442	(408)	4,337	3,305
Minority interest in net earnings (loss) of subsidiary, net of tax	12	2	(31)	91
Net income	$ 6,628	$ 5,241	$ 17,757	$ 12,549
Basic net income per share	$ .24	$ .20	$ .66	$ .47
Diluted net income per share	$ .23	$ .19	$ .62	$ .45
Shares used in basic net income per share computation	27,170	26,775	27,019	26,719
Shares used in diluted net income per share computation	29,177	28,104	28,641	28,138

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended December 30, 2005	Nine months ended December 31, 2004
Cash flows from operating activities:		
Net income	$ 17,757	$ 12,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,359	7,569
Amortization of intangible assets and software	7,262	7,746
Deferred income taxes	(1,405)	(171)
Loss on disposal of fixed assets	274	
Minority interest in consolidated subsidiary	(2)	98
Non-cash stock-based compensation	41	
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effects of the acquisition:		
Accounts receivable, net	(15,255)	(27,571)
Inventories	(3,013)	(5,468)
Other assets	4,051	(3,355)
Accounts payable	3,458	7,506
Accrued liabilities	6,124	(4,220)
Other liabilities	2,311	914
Net cash provided by (used in) operating activities	29,962	(4,403)
Cash flows from investing activities:		
Acquisition of a business, net of cash acquired	(15,994)	
Purchases of short-term investments	(1)	(1)
Purchases of property and equipment	(12,612)	(8,851)
Net cash (used in) investing activities	(28,607)	(8,852)
Cash flows from financing activities:		
Proceeds from line of credit	3,000	9,000
Payments on line of credit	(3,000)	(9,000)
Proceeds from issuance of common stock, net of issuance costs	6,289	3,494
Net cash provided by financing activities	6,289	3,494
Effect of exchange rate changes on cash	(148)	106
Net increase (decrease) in cash and cash equivalents	7,496	(9,655)
Cash and cash equivalents at beginning of period	14,579	18,510
Cash and cash equivalents at end of period	$ 22,075	$ 8,855

Non-cash investing and financing activities:

Issuance of stock options in connection with acquisition	$	525	$

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	Common Stock Amount	Paid in Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance at April 1, 2005	26,861,900	$ 3	$ 163,819	$ 62,288	$	$ 173	$ 226,283	
Exercise of stock options	372,736		4,380				4,380	
Tax benefit from exercise of stock options			1,600				1,600	
Issuance of stock under Employee Stock Purchase Plan	110,269		1,909				1,909	
Issuance of stock options in connection with acquisition of a business			525		(291)		234	
Amortization of deferred compensation					41		41	
Net income				17,757			17,757	$ 17,757
Hedging Transactions						(286)	(286)	(286)
Foreign currency translation						(141)	(141)	(141)
Comprehensive income								$ 17,330
Balance at December 30, 2005	27,344,905	$ 3	$ 172,233	$ 80,045	$ (250)	$ (254)	$ 251,777	

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 December 30, 2005, the condensed consolidated statements of operations for the three and nine months ended December 30, 2005 and December 31, 2004, the condensed consolidated statements of cash flows for the nine months ended December 30, 2005 and December 31, 2004, and the condensed consolidated statement of stockholders equity for the nine months ended December 30, 2005 have been prepared by the management of ViaSat, Inc., 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 April 1, 2005 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 April 1, 2005 included in our 2005 Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year.

Our consolidated financial statements include the assets, liabilities and results of operations of TrellisWare Technologies, Inc., a majority owned subsidiary of ViaSat (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 2006 refer to the fiscal year ending on March 31, 2006. Our quarters for fiscal year 2006 end on July 1, 2005, September 30, 2005, December 30, 2005 and March 31, 2006.

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, 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 life of lease as a reduction to rent expense.

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

Stock-based Compensation

At December 30, 2005, we had stock-based compensation plans from which incentive stock options may be granted to our key employees and non-qualified stock options may be granted to key employees, directors, officers, independent contractors, and consultants. Approximately 79% of grants outstanding at December 30, 2005 were incentive stock options. We measure compensation expense for options issued to employees, directors and officers under those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and Related Interpretations. Generally, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

Under Financial Accounting Standards Board (FASB) Statement No. 123 (SFAS 123) the estimated fair value of options is amortized to expense over the vesting period. We elect to use the disclosure only provisions of SFAS 123. Had compensation expense for employees, directors and officers stock options been determined based on the fair value of the options on the date of grant, net income and net income per share would have resulted in the pro forma information presented below for the three and nine months ended December 30, 2005 and December 31, 2004:

	Three months ended		Nine months ended	
	December 30, 2005	December 31, 2004	December 30, 2005	December 31, 2004
	(In thousands, except per share data)		(In thousands, except per share data)	
Net income as reported	$ 6,628	$ 5,241	$ 17,757	$ 12,549
Stock based compensation included in net income, net of tax	41		41	
Stock based employee compensation expense under fair value based method, net of tax	(2,197)	(2,491)	(6,995)	(6,359)
Pro forma net income	$ 4,472	$ 2,750	$ 10,803	$ 6,190
Basic earnings per share				
As reported	$ 0.24	$ 0.20	$ 0.66	$ 0.47
Pro forma	$ 0.16	$ 0.10	$ 0.40	$ 0.23
Diluted earnings per share				
As reported	$ 0.23	$ 0.19	$ 0.62	$ 0.45
Pro forma	$ 0.16	$ 0.10	$ 0.38	$ 0.22

These pro forma amounts may not be representative of future costs since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement No. 123 (SFAS 123R), Share-Based Payment, which requires companies to expense the estimated fair value of employee stock options and similar awards. On April 14, 2005, the Securities and Exchange Commission adopted a new rule amending the compliance dates for SFAS 123R. In accordance with the new rule, the accounting provisions of SFAS 123R will be effective for the Company in the first quarter of fiscal 2007. The Company will adopt the provisions of SFAS 123R and plan to use the modified prospective transition method.

Under the modified prospective transition method, SFAS 123R, which provides certain changes to the method for valuing stock-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123 (See Stock-based Compensation in this note). As permitted by SFAS 123, the Company currently accounts for stock-based compensation using APB 25 s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R will likely have a material impact on the Company s results of operations. However, the ultimate impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

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

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 or under 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 and nine months ended December 30, 2005, we recorded charges of approximately $1.7 million and $5.0 million, respectively, related to loss contracts. During the three and nine months ended December 31, 2004, we recorded charges of approximately $4.8 million for both periods, 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.

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 2,007,423 and 1,329,354 shares for the three months ended December 30, 2005 and December 31, 2004, respectively, and 1,621,809 and 1,418,543 shares for the nine months ended December 30, 2005 and December 31, 2004, respectively, were included in the calculation of diluted earnings per share. Antidilutive shares excluded from the calculation were 199,270 and 1,780,205 shares for the three months ended December 30, 2005 and December 31, 2004, respectively, and 328,449 and 1,518,872 shares for the nine months ended December 30, 2005 and December 31, 2004, respectively. Potential common stock is primarily comprised of options granted under our stock option plans.

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

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

	December 30, 2005	April 1, 2005
Accounts receivable, net:		
Billed	$ 75,180	$ 49,737
Unbilled	82,473	91,724
Allowance for doubtful accounts	(155)	(163)
	$ 157,498	$ 141,298
Inventories:		
Raw materials	$ 24,148	$ 16,706
Work in process	7,660	9,347
Finished goods	8,278	10,559
	$ 40,086	$ 36,612
Prepaid expenses and other current assets:		
Income taxes receivable	$ 2,219	$ 2,639
Prepaid expenses	4,304	6,187
Other	382	1,288
	$ 6,905	$ 10,114
Other intangible assets, net:		
Technology	$ 29,670	$ 26,770
Contracts and relationships	15,436	9,736
Non-compete agreement	7,950	7,950
Other intangibles	8,075	6,875
	61,131	51,331
Less accumulated amortization	(35,063)	(30,341)
	$ 26,068	$ 20,990
Property and equipment, net:		
Machinery and equipment	$ 50,965	$ 43,966
Computer equipment and software	31,725	29,866
Furniture and fixtures	3,780	3,523
Construction in progress	8,384	3,876
	94,854	81,231
Less accumulated depreciation	(55,647)	(47,953)
	$ 39,207	$ 33,278

Other assets:				
Capitalized software costs, net	$	7,817	$	10,341
Deferred income taxes		7,779		6,333
Other		2,369		1,599
	$	17,965	$	18,273
Accrued liabilities:				
Current portion of warranty reserve	$	4,174	$	3,268
Accrued vacation		5,441		5,120
Accrued bonus/401(k) matching contributions		5,811		6,239
Collections in excess of revenues		17,252		13,767
Other		8,231		4,016
	$	40,909	$	32,410
Other liabilities:				
Accrued warranty	$	4,180	$	3,911
Long term portion of deferred rent		2,217		
Other long term liabilities		853		
	$	7,250	$	3,911

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

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 one 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 one to ten years.

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

	Amortization
For the nine months ended December 30, 2005	$ 4,718
Expected for the remainder of fiscal year 2006	2,088
Expected for fiscal year 2007	7,254
Expected for fiscal year 2008	5,584
Expected for fiscal year 2009	4,836
Expected for fiscal year 2010	1,612
Thereafter	4,694
	$ 26,068

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 December 30, 2005, the Company had approximately $5.8 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of $54.2 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 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 December 30, 2005.

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

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 nine months ended December 30, 2005 and December 31, 2004 (in thousands).

	For the nine months ended	
	December 30, 2005	December 31, 2004
Balance, beginning of period	$ 7,179	$ 4,451
Change in liability for warranties issued in period	3,610	4,281
Settlements made during the period	(2,435)	(2,044)
Balance, end of period	$ 8,354	$ 6,688

Note 8 Commitments and Contingencies

We are currently a party to various government and commercial contracts which require us to meet performance covenants and project milestones. Under the terms of these contracts, failure by us to meet such performance covenants and milestones permit the other party to terminate the contract and, under certain circumstances, recover liquidated damages or other penalties. We are currently not in compliance (or in the past were not in compliance) with the performance or milestone requirements of certain of these contracts. Historically, most of our customers have not elected to terminate such contracts and we do not currently believe that our existing customers will do so. In the past, we have incurred liquidated damages under our customer contracts. There can be no assurance that our customers will not elect to terminate such contracts or seek additional liquidated damages or penalties from us in the future.

On May 21, 2003, we filed a complaint against Xetron Corporation alleging Xetron failed to deliver conforming radio frequency amplifiers (RFAs) for integration into our MIDS terminals. Xetron filed a counter-claim against us alleging we failed to make proper payments. On April 11, 2005, we reached an agreement with Xetron to settle all claims whereby we received $4.8 million as a result of the settlement. Accordingly, in the first quarter of fiscal year 2006, the Company recognized a net reduction of cost of revenues of $2.7 million after recovery of approximately $2.1 million in related subcontractor prepayments.

We are also 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 December 30, 2005, the Company settled two foreign exchange contracts recognizing a loss of $44,600 recorded as cost of revenues based on the underlying transaction. For the nine months ended December 30, 2005, the Company settled certain foreign exchange contracts recognizing a loss of $279,200 recorded also as cost of revenues based on the underlying transactions. The Company also entered into a new foreign currency exchange contract 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 $340,000 and is recorded as a liability as of December 30, 2005. We had $5.9 million of notional value of foreign currency forward contracts outstanding at December 30, 2005. We did not record any gains or losses on foreign currency forward contracts for the three and nine months ended December 31, 2004.

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

Note 10 Income Taxes

The effective income tax rate for the three months ended December 30, 2005 was 17.8%. The effective income tax rate for the nine months ended December 30, 2005 was 19.7%. The estimated annual effective tax rate for the fiscal year ending March 31, 2006, is 22.7%. 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 22.7% for fiscal year 2006 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 our fourth quarter of fiscal year 2006. A valuation allowance of $758,000 had been provided on deferred tax assets at April 1, 2005, related to California research credit carry forward realization. Based on projected future income and usage of California research credits we have reduced the valuation allowance by $758,000 in the third quarter of fiscal year 2006.

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. Prior segment results have been reclassified to conform to our current organizational structure. Reporting segments are determined consistent with the way that management organizes and 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 and nine months ended December 30, 2005 and December 31, 2004. Certain corporate general and administrative costs, amortization of intangible assets and charges of acquired in-process research and development are not allocated to either segment 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		Nine months ended	
(in thousands)	**December 30, 2005**	**December 31, 2004**	**December 30, 2005**	**December 31, 2004**
Revenues				
Government	$ 53,225	$ 48,599	$ 156,200	$ 127,704
Commercial				
Satellite Networks	49,203	31,511	130,979	101,982
Antenna Systems	11,032	9,543	33,691	29,432
	60,235	41,054	164,670	131,414
Elimination of intersegment revenues	(1,852)	(1,466)	(5,173)	(4,118)
Total revenues	111,608	88,187	315,697	255,000
Operating profits (losses)				

Government	12,036	6,984	31,716	20,915
Commercial				
Satellite Networks	(1,957)	(805)	(5,300)	(266)
Antenna Systems	449	883	2,899	2,559
	(1,508)	78	(2,401)	2,293
Elimination of intersegment operating profits	(798)	(170)	(2,636)	(473)
Segment operating profit before corporate and amortization	9,730	6,892	26,679	22,735
Corporate	(59)	(513)	172	(1,591)
Amortization of intangible assets (1)	(1,694)	(1,512)	(4,718)	(5,130)
Income from operations	$ 7,977	$ 4,867	$ 22,133	$ 16,014

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

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(in thousands)	December 30, 2005	April 1, 2005
Segment assets (2)		
Government	$ 85,980	$ 81,645
Commercial		
Satellite Networks	137,618	114,020
Antenna Systems	26,185	24,075
	163,803	138,095
Corporate assets	95,303	82,085
Total	$ 345,086	$ 301,825

(2) Assets identifiable to segments include: accounts receivable, unbilled accounts receivable, inventory, intangible assets and goodwill. At December 30, 2005 and April 1, 2005, all the Company s goodwill and intangible assets related to the Company s commercial segment. At December 30, 2005 Satellite Networks had $24.5 million of goodwill and $23.9 million in

net intangible assets, and Antenna Systems had $3.6 million of goodwill and $2.2 million in net intangible assets. On April 1, 2005, Satellite Networks had $15.9 million of goodwill and $18.3 million in net intangible assets, and Antenna Systems had $3.6 million of goodwill and $2.7 million in net intangible assets.

Revenue information by geographic area for the three and nine month periods ended December 30, 2005 and December 31, 2004 is as follows:

	Three months ended		Nine months ended	
(in thousands)	**December 30, 2005**	**December 31, 2004**	**December 30, 2005**	**December 31, 2004**
United States	$ 90,005	$ 68,533	$ 256,554	$ 202,683
Asia Pacific	7,575	2,798	22,211	15,911
Europe/Africa	9,141	11,134	20,082	24,811
North America other than United States	4,336	5,625	11,702	10,305
Latin America	551	97	5,148	1,290
	$ 111,608	$ 88,187	$ 315,697	$ 255,000

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 $292,000 at December 30, 2005 and $48,000 at April 1, 2005.

Note 12 Acquisition

On December 1, 2005, the Company completed the acquisition of all of the outstanding capital stock of Efficient Channel Coding, Inc. (ECC), a privately-held designer and supplier of broadband communication integrated circuits and satellite communication systems. The initial purchase price of approximately $16.6 million was comprised primarily of $15.8 million in cash consideration, $227,200 in direct acquisition costs and $525,000 related to the fair value of options exchanged at the closing date. The $16.1 million of cash consideration less cash acquired of approximately $70,000 resulted in a net cash outlay of approximately $16.0 million. An additional $9.0 million in consideration is payable in cash and/or stock at the Company s option on or prior to the eighteenth (18) month anniversary of the closing date based on ECC meeting certain financial performance targets. The additional consideration, if earned, will be recorded as additional purchase price.

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

(in thousands)		**December 1, 2005**
Current assets	$	1,513
Property, plant and equipment		179
Identifiable intangible assets		9,800
Goodwill		8,641
Other assets		34
Total assets acquired		20,167
Current liabilities		(3,016)
Other long term liabilities		(853)
Total liabilities assumed		(3,869)
Deferred stock-based compensation		291
Total purchase price	$	16,589

The Company issued 23,424 in unvested incentive stock options under the Efficient Channel Coding, Inc. 2000 Long Term Incentive Plan assumed under the terms of the acquisition agreement. In accordance with SFAS No. 141 (SFAS 141), Business Combinations, the Company recorded $291,000 in deferred stock-based compensation which will be amortized to compensation expense over the remaining service period.

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

(in thousands)	
Customer relationships (10 year weighted average life)	$ 5,700
Acquired developed technology (6 year weighted average life)	2,900
Backlog (1 year weighted average life)	1,200
Total identifiable intangible assets	$ 9,800

The acquisition of ECC is very complementary to ViaSat because we will benefit from their technology, namely DVB-S2 and ASIC design capabilities, customers and highly skilled workforce. The potential opportunities these benefits provide to ViaSat s Satellite Networks product group in our commercial segment were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The intangible assets and goodwill recognized will be deductible for federal income tax purposes.

The consolidated financial statements include the operating results of ECC from the date of acquisition in the Company s Satellite Networks product line in the commercial 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.

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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 April 1, 2005, 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 54% and 47% of our revenues in the three months ended December 30, 2005 and December 31, 2004, respectively, 52% of our revenues in the nine months ended December 30, 2005 and December 31, 2004, and 51% of our revenues in fiscal year 2005 and 55% of our revenues in fiscal year 2004. 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.

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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 2006. 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.

For the current quarter, our income from operations, excluding the income statement line Amortization of intangible assets, is approximately nine percent of revenues. To the extent we are not generating sufficient gross profit from revenues, we strive to adjust other operating expenses to increase this percentage. Due to the need to increase our new contracts awards, to expand our product portfolio, the high level of customer funded research and development and our operating performance, we have slowly improved this percentage over the last few fiscal years. As fiscal year 2006 progresses and we look ahead to fiscal year 2007, we expect to see improvement and achieve a higher quarterly profit percentage.

Our increased capital needs for fiscal year 2006 as compared to fiscal year 2005 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 December 1, 2005, the Company completed the acquisition of all of the outstanding capital stock of Efficient Channel Coding, Inc. (ECC), a privately-held designer and supplier of broadband communication integrated circuits and satellite communication systems. The initial purchase price of approximately $16.6 million was comprised primarily of $15.8 million in cash consideration, $227,000 in direct acquisition costs and $525,000 related to the fair value of options exchanged at the closing date. The $16.1 million of cash consideration less cash acquired of approximately $70,000 resulted in a net cash outlay of approximately $16.0 million. An additional $9.0 million in consideration is payable in cash and/or stock at the Company s option on or prior to the eighteenth (18) month anniversary of the Closing Date based on ECC meeting certain financial performance targets. The additional consideration, if earned, will be recorded as additional purchase price.

At December 1, 2005, the Company recorded $9.8 million in identifiable intangible assets and $8.6 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 ECC from the date of acquisition in the Company s Satellite Networks product line in the commercial segment.

The acquisition of ECC is very complementary to ViaSat because we will benefit from their technology, namely DVB-S2 and ASIC design capabilities, customers and highly skilled workforce. The potential opportunities these benefits provide to ViaSat s Satellite Networks product group in our commercial segment were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The intangible assets and goodwill recognized will be deductible for federal income tax purposes.

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.

Revenue recognition

A substantial portion of our 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.

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 and nine months ended December 30, 2005, we recorded charges of approximately $1.7 million and $5.0 million, respectively, related to loss contracts. During the three and nine months ended December 31, 2004, we recorded charges of approximately $4.8 million for both periods, 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 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. Significant changes in estimates related to accounting for long-term contracts may have a material effect on our results of operations in the period in which the revised estimate is made.

We also have 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. We assess 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 assess 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 nine month periods ended December 30, 2005 or December 31, 2004. Amortization expense of software development was $873,000 and $839,000 for the three months ended December 30, 2005 and December 31, 2004, respectively, and $2.5 million and $2.6 million for the nine months ended December 30, 2005 and December 31, 2004, 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.

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 $157.5 million, net of allowance for doubtful accounts of $155,000 as of December 30, 2005 and our accounts receivables balance was $141.3 million, net of allowance for doubtful accounts of $163,000 as of April 1, 2005.

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

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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. A valuation allowance of $758,000 had been provided on deferred tax assets at April 1, 2005, related to the California research credit carryforward realization. Based on projected future income and usage of California research credits we have reduced the valuation allowance by $758,000 in the third quarter of fiscal year 2006.

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 until the underlying transaction affects our earnings and are then recorded in the same income statement line as the underlying transaction. We had $5.9 million of notional value of foreign currency forward contracts outstanding at December 30, 2005. We had no foreign currency forward contracts outstanding at December 31, 2004.

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Results of Operations

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

	Three months ended		Nine months ended	
	December 30, 2005	**December 31, 2004**	**December 30, 2005**	**December 31, 2004**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	75.0	77.6	75.2	76.1
Gross profit	25.0	22.4	24.8	23.9
Operating expenses:				
Selling, general and administrative	13.2	12.9	13.0	13.5
Independent research and development	3.2	2.2	3.3	2.1
Amortization of intangible assets	1.5	1.8	1.5	2.0
Income from operations	7.1	5.5	7.0	6.3
Income before income taxes	7.2	5.5	7.0	6.3
Net income	5.9	5.9	5.6	4.9

The Results of Operations for the nine-month period ended December 30, 2005 include a benefit to Cost of revenues of $2.7 million relating to the Xetron settlement. See Notes to Condensed Consolidated Financial Statements Note 8 Commitments and Contingencies.

Three Months Ended December 30, 2005 vs. Three Months Ended December 31, 2004

Revenues

(In millions, except percentages)	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Revenues	$111.6	$ 88.2	$23.4	26.6%

The increase in revenues was due to our higher beginning backlog of $389.9 million, quarterly customer awards of $78.2 million and the conversion of certain backlog and awards into revenues. Revenue increases were experienced in both our government and commercial segments and were predominantly derived from increased revenues in our government communications products of approximately $5.0 million, and consumer and mobile broadband products of approximately $15.8 million.

Gross Profit

(In millions, except percentages)	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Gross profit	$27.9	$ 19.7	$ 8.2	41.6%
Percentage of revenues	25.0%	22.3%		

Increase in gross profit from $19.7 million to $27.9 million was primarily due to increased revenues contributing $5.2 million in gross profit and changes in the mix of products sold increasing gross margin by approximately $3.0 million. 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.

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Selling, General and Administrative Expenses

(In millions, except percentages)	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Selling, general and administrative	$14.7	$ 11.4	$ 3.3	29.2%
Percentage of revenues	13.2%	12.9%		

The increase in selling, general and administrative (SG&A) expenses in the third quarter of 2006 compared to the third quarter of 2005 was primarily attributable to higher selling costs due to our growth and higher facility related expenses due to the relocation of our Atlanta facilities of approximately $1.0 million. 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

(In millions, except percentages)	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Independent research and development	$3.5	$ 1.9	$ 1.6	81.8%
Percentage of revenues	3.2%	2.2%		

The increase in independent research and development (IR&D) expenses reflects year over year increases in the government segment of $703,000 and the commercial segment of $882,000. 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 year 2001, 2002 and fiscal year 2006 are being amortized over useful lives ranging from one 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 nine months ended December 30, 2005	$ 4,718
Expected for the remainder of fiscal year 2006	2,088
Expected for fiscal year 2007	7,254
Expected for fiscal year 2008	5,584
Expected for fiscal year 2009	4,836
Expected for fiscal year 2010	1,612
Thereafter	4,694
	$ 26,068

Interest Expense Interest expense was $56,000 for the three months ended December 30, 2005 and $32,000 for the three months ended December 31, 2004 due to higher commitment fees as a result of increased line of credit availability compared to prior year. We had no outstanding borrowings under our line of credit at December 30, 2005 and December 31, 2004.

Interest Income Interest income increased to $161,000 for the three months ended December 30, 2005 from zero for the three months ended December 31, 2004 due to higher average invested cash balances year over year.

Provision (Benefit) for Income Taxes Our effective tax rate for the three months ended December 30, 2005 was approximately 17.8% compared to an 8.0% tax benefit for the three months ended December 31, 2004. We currently estimate our annual effective income tax rate to be approximately 22.7% for fiscal year 2006, as compared to the actual 6.0% effective income tax rate in fiscal year

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2005. The income tax benefit of approximately 8% for the third quarter of fiscal year 2005 was lower than the annual effective tax rate primarily due to the recording of federal research and development tax credits allowed for the third quarter of fiscal year 2005. The 2004 Working Families Act, enacted on October 4, 2004, extended the federal research and development tax credit from June 30, 2004 to December 31, 2005. In the first and second quarters of fiscal year 2005, our estimated annual effective income tax rate did not include the effect of the extension of the federal research and development tax credit, which resulted in a catch-up adjustment of approximately $650,000 in the quarter. In addition, our estimate for fiscal year 2005 research and development tax credit increased, and we also recorded in the third quarter of fiscal year 2005 a benefit of approximately $300,000 relating to differences in estimates used when preparing our fiscal 2004 tax provision and actual amounts included in our 2004 tax return. Our estimated effective tax rate of 22.7% for fiscal year 2006 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 our fourth quarter of fiscal year 2006.

A valuation allowance of $758,000 had been provided on deferred tax assets at April 1, 2005, related to California research credit carry forward realization. Based on projected future income and usage of California research credits we have reduced the valuation allowance by $758,000 in the third quarter of fiscal year 2006.

Our Segment Results for the Three Months Ended December 30, 2005 vs. Three Months Ended December 31, 2004

Government Segment

Revenues

	Three months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	December 30, 2005	December 31, 2004	(Decrease)	(Decrease)
Revenues	$53.2	$ 48.6	$4.6	9.5%

The government segment received awards of $33.0 million for the third quarter of fiscal year 2006 compared to $73.4 million for the third quarter of fiscal year 2005. Revenue increases were predominantly derived from increased revenues in our government communications products of approximately $5.0 million compared to prior year, offset by slight sales decreases in various other products.

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Segment Operating Profit

(In millions, except percentages)	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Operating profit	$12.0	$ 7.0	$5.1	72.3%
Percentage of government segment revenues	22.6%	14.4%		

The increase in government segment operating profit was primarily related to higher revenues and improved gross margins of approximately eight percentage points primarily from MIDS production and government broadband products. The increase in gross margins was partially offset by higher selling costs of $1.0 million and IR&D expenses of $703,000.

Commercial Segment

Revenues

	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Satellite Networks				
(In millions, except percentages)				
Revenues	$49.2	$ 31.5	$17.7	56.1%
Antenna Systems				
(In millions, except percentages)				
Revenues	$11.0	$ 9.5	$ 1.5	15.6%
Total Commercial Segment				
(In millions, except percentages)				
Revenues	$60.2	$ 41.1	$19.1	46.7%

The increase in commercial segment revenues reflects higher sales in both the satellite networks and antenna systems product lines. The higher satellite networking systems 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 and mobile broadband products totaling approximately $15.8 million as compared to prior year.

Segment Operating Profit

	Three months ended December 30, 2005	Three months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Satellite Networks				
(In millions, except percentages)				
Satellite Networks operating profit (loss)	$(2.0)	$ (0.8)	$(1.2)	143.1%
Percentage of Satellite Network revenues	(4.0)%	(2.6)%		

Antenna Systems
(In millions, except percentages)

Antenna Systems operating profit	$ 0.4	$ 0.9	$ (0.4)	(49.2)%
Percentage of Antenna Systems revenues	4.1%	9.3%		

Total Commercial Segment
(In millions, except percentages)

Segment operating profit (loss)	$ (1.5)	$ 0.1	$ (1.6)	(2,033.3)%
Percentage of commercial segment revenues	(2.5)%	0.2%		

The decrease in commercial segment operating profit and percentage is primarily due to a charge of approximately $1.4 million for a settlement to exit a contract related to a radio frequency micro-positioning technology, an increase in IR&D expenses of $882,000 associated with the development of our DOCSIS-based consumer satellite broadband products and move costs incurred in the quarter of over $1 million to relocate our Georgia operations. These decreases were offset by improved performance in our consumer broadband programs.

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Nine Months Ended December 30, 2005 vs. Nine Months Ended December 31, 2004

Revenues

	Nine months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	December 30, 2005	December 31, 2004	(Decrease)	(Decrease)
Revenues	$315.7	$ 255.0	$60.7	23.8%

The increase in revenues was due to our beginning backlog of $361.9 million, customer awards of $310.4 million for the first nine months of our fiscal year 2006 and the conversion of certain backlog and awards into revenues. Revenues gains were experienced in both our government and commercial segments. Growth was primarily derived from our tactical data link products and certain information assurance products increasing approximately $36.3 million, increases from consumer and mobile broadband products of approximately $31.1 million, offset by decreases in our UHF mobile satellite communication and other products of approximately $6.7 million from prior year.

Gross Profit

	Nine months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	December 30, 2005	December 31, 2004	(Decrease)	(Decrease)
Gross profit	$78.1	$ 60.9	$17.2	28.2%
Percentage of revenues	24.8%	23.9%		

Gross profit dollars grew from the increase in revenue, and gross profit percentage was slightly higher as well compared to prior year. Results for the first quarter of fiscal year 2006 include a benefit related to a legal settlement with Xetron Corporation, which resulted in a net benefit to cost of revenues of $2.7 million. Excluding the effects of the Xetron settlement, gross profit percentages decreased slightly, 0.01%, compared to the same period last year.

Selling, General and Administrative Expenses

	Nine months ended		Dollar Increase	Percentage Increase
(In millions, except percentages)	December 30, 2005	December 31, 2004	(Decrease)	(Decrease)
Selling, general and administrative	$40.9	$ 34.4	$ 6.5	18.7%
Percentage of revenues	13.0%	13.5%		

SG&A expenses increased due to higher selling expenses in commercial segment, from higher sales year over year, greater bid and proposal expenses in the government segment, overall higher selling costs to support our growth and higher facility costs of approximately $1.4 million related to relocation of our Atlanta facilities, offset by various other net decreases.

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Independent Research and Development

(In millions, except percentages)	Nine months ended December 30, 2005	Nine months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Independent research and development	$10.4	$ 5.4	$5.0	93.8%
Percentage of revenues	3.3%	2.1%		

The increase in IR&D expenses reflects year over year increases in the government segment of $2.8 million and the commercial segment of $2.2 million. 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 year 2001, 2002 and fiscal year 2006 are being amortized over useful lives ranging from one 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 nine months ended December 30, 2005	$ 4,718
Expected for the remainder of fiscal year 2006	2,088
Expected for fiscal year 2007	7,254
Expected for fiscal year 2008	5,584
Expected for fiscal year 2009	4,836
Expected for fiscal year 2010	1,612
Thereafter	4,694
	$ 26,068

Interest Expense Interest expense increased to $238,000 for the nine months ended December 30, 2005 from $91,000 for the nine months ended December 31, 2004. Interest expense relates to short-term borrowings under our line of credit to cover working capital requirements. The increase in interest expense was from higher loan costs. We had no outstanding borrowings under our line of credit at December 30, 2005 and December 31, 2004.

Interest Income Interest income increased to $168,000 for the nine months ended December 30, 2005 from $22,000 for the nine months ended December 31, 2004 due to higher average cash balances year over year.

Provision for Income Taxes Our effective tax rate for the nine months ended December 30, 2005 was approximately 19.7% compared to 20.7% for the nine months ended December 31, 2004. We currently estimate our annual effective income tax rate to be approximately 22.7% for fiscal year 2006, as compared to the actual 6.0% effective income tax rate in fiscal year 2005. Our estimated annual effective tax rate of 22.7% for fiscal year 2006 reflects the expiration of the federal tax credit for research and development expenses 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 research and development tax credit 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 our fourth quarter of fiscal year 2006.

A valuation allowance of $758,000 had been provided on deferred tax assets at April 1, 2005, related to California research credit carry forward realization. Based on projected future income and usage of California research credits we have reduced the valuation allowance by $758,000 in the third quarter of fiscal year 2006.

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Our Segment Results for the Nine Months Ended December 30, 2005 vs. Nine Months Ended December 31, 2004

Government Segment

Revenues

(In millions, except percentages)	Nine months ended December 30, 2005	Nine months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Revenues	$156.2	$ 127.7	$28.5	22.3%

The government segment received awards of $173.1 million for the first nine months of fiscal year 2006 compared to $178.9 million for the first nine months of fiscal year 2005. The conversion of certain backlog and orders to revenue contributed to revenue growth. Increased revenues were primarily attributed to the following products: $25.0 million increase for tactical data links, principally our MIDS production units and MIDS JTRS development, $11.3 million increase for certain information assurance systems and products, offset by decreases of approximately $7.3 million primarily in our UHF satellite communications products.

Segment Operating Profit

(In millions, except percentages)	Nine months ended December 30, 2005	Nine months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Operating profit	$31.7	$ 20.9	$10.8	51.6%
Percentage of government segment revenues	20.3%	16.4%		

The increase in government segment operating profit dollars was primarily related to the impact from increased revenue period over period contributing approximately $10.8 million in improved gross profit particularly in our tactical data links products partially offset by higher SG&A expenses of $4.9 million and IR&D expenses of $2.8 million.

Commercial Segment

Revenues

	Nine months ended December 30, 2005	Nine months ended December 31, 2004	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Satellite Networks				
(In millions, except percentages)				
Revenues	$131.0	$ 102.0	$29.0	28.4%
Antenna Systems				
(In millions, except percentages)				
Revenues	$ 33.7	$ 29.4	$ 4.3	14.5%
Total Commercial Segment				
(In millions, except percentages)				
Revenues	$164.7	$ 131.4	$33.3	25.3%

The increase in revenues reflects improved competitive positioning across all our commercial products, more favorable market conditions in the commercial telecommunications market for our VSAT network products and further development of our in-flight and consumer satellite broadband internet systems. Revenue increases were primarily attributable to increases of $31.1 million from our consumer and mobile broadband products and $4.3 million for antenna systems, offset by decreases in various other products for the first nine months of fiscal year 2006 over the first nine months of fiscal year 2005.

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Segment Operating Profit

	Nine months ended		Dollar Increase	Percentage Increase
	December 30, 2005	December 31, 2004	(Decrease)	(Decrease)
Satellite Networks				
(In millions, except percentages)				
Satellite Networks operating profit (loss)	$(5.3)	$ (0.3)	$(5.0)	1,892.5%
Percentage of Satellite Network revenues	(4.0)%	(0.3)%		
Antenna Systems				
(In millions, except percentages)				
Antenna Systems operating profit	$ 2.9	$ 2.6	$ 0.3	13.3%
Percentage of Antenna Systems revenues	8.6%	8.7%		
Total Commercial Segment				
(In millions, except percentages)				
Segment operating profit (loss)	$(2.4)	$ 2.3	$(4.7)	(204.7)%
Percentage of commercial segment revenues	(1.5)%	1.8%		

The decrease in commercial segment operating profit dollars was primarily attributed to increased Company funded research and development expenses of $2.2 million and decreases in gross margin primarily due to cost overruns and contract exit costs related to a commercial radio frequency micro-positioning technology products of $2.5 million.

Backlog

As reflected in the table below, funded backlog increased while total firm backlog decreased during the first nine months of fiscal year 2006 with the increase coming from our government segments.

	December 30, 2005	April 1, 2005
	(in millions)	
Firm backlog		
Government segment	$ 211.2	$ 194.6
Commercial segment	148.5	167.3
Total	$ 359.7	$ 361.9
Funded backlog		
Government segment	$ 136.0	$ 109.4
Commercial segment	147.0	163.9
Total	$ 283.0	$ 273.3
Contract options	$ 36.9	$ 23.0

The firm backlog does not include contract options. Of the $359.7 million in firm backlog, approximately $104.8 million is expected to be delivered during the remaining three months of fiscal year 2006, and the balance is expected to be delivered in fiscal year 2007 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 nine months of fiscal year 2006 was $30.0 million as compared to cash used by operating activities for the first nine months of fiscal year 2005 of $4.4 million. The increase in cash provided by operating activities was primarily attributable to net income and non-cash add-backs of $32.3 million less working capital reduction of $2.3 million. Billed accounts receivable increased due to increased shipments in both our government and commercial segments and the achievement of program milestones. Unbilled accounts receivable decreased due to the achievement of milestones primarily on tactical data links, information assurance, consumer broadband and enterprise VSAT programs. We believe the unbilled accounts receivable balances will continue to decline as we achieve further program milestones and increase production deliveries.

Cash used in investing activities for the first nine months of fiscal year 2006 was $28.6 million as compared to cash used in investing activities for the first nine months of fiscal year 2005 of $8.9 million. The increase in cash used in investing activities primarily relates to $16.0 million in cash used to acquire Efficient Channel Coding, Inc. (ECC) and asset purchases for our new facilities in Carlsbad and Atlanta, which are both expected to be substantially completed in fiscal year 2006.

Cash provided by financing activities for the first nine months of fiscal year 2006 was $6.3 million as compared to cash provided by financing activities for the first nine months of fiscal year 2005 of $3.5 million. Activity for both years is solely due to cash received from the exercise of employee stock options and stock purchases through our stock purchase plan.

At December 30, 2005, we had $22.2 million in cash, cash equivalents and short-term investments, $148.4 million in working capital and no outstanding borrowings under our line of credit. We had $5.8 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of $54.2 million. At April 1, 2005, we had $14.7 million in cash and cash equivalents and short-term investments, $138.9 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 December 30, 2005.

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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.

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 fiscal year	For the fiscal years		
	Total	**2006**	**2007-2008**	**2009-2010**	**After 2010**
Operating leases	$ 81,465	$ 1,548	$ 15,891	$ 15,814	$ 48,212
Standby letters of credit	5,788	986	2,269		2,533
Land purchase commitment	3,115	3,115			
Purchase commitments	137,276	30,791	106,485		
Total	$ 227,644	$ 36,440	$ 124,645	$ 15,814	$ 50,745

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.

On September 15, 2005, we entered into an agreement to purchase approximately 10 acres of land adjacent to a leased facility for approximately $3.1 million. We completed this transaction in January 2006.

Future Accounting Requirements

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement No. 123 (SFAS 123R), Share-Based Payment, which requires companies to expense the estimated fair value of employee stock options and similar awards. On April 14, 2005, the Securities and Exchange Commission adopted a new rule amending the compliance dates for SFAS 123R. In accordance with the new rule, the accounting provisions of SFAS 123R will be effective for us in the first quarter of fiscal year 2007. We will adopt the provisions of SFAS 123R and plan to use the modified prospective transition method.

Under the modified prospective transition method, SFAS 123R, which provides certain changes to the method for valuing stock-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS 123. As permitted by SFAS 123, we currently account for stock-based compensation using APB 25 s intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R will likely have a material impact on our results of operations. However, the ultimate impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements at December 30, 2005.

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.

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 26% of our revenues in the first nine months of fiscal year 2006, 22% of our revenues in fiscal year 2005 and 15% of our revenues in fiscal year 2004. Our five largest contracts generated approximately 44% of our revenues in the first nine months of fiscal year 2006, 27% of our revenues in fiscal year 2005 and 24% of our revenues in fiscal year 2004. 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, acceptance by the market of products and services, and the ability to obtain sufficient capital. 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 24% of our revenues in the first nine months of fiscal year 2006, 24% of our revenues in fiscal year 2005 and 29% of our revenues in fiscal year 2004 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.

Our Operating Results May Be Adversely Affected by Unfavorable Economic and Market Conditions

Adverse and uncertain economic conditions worldwide have had significant effects on markets we serve, particularly satellite communications equipment manufacturers, service providers and network operators, and have had a negative effect on our revenues. Adverse and uncertain economic conditions may affect our business in the future, including our ability to increase or maintain our revenues and operating results. In addition, because we intend to continue to make investments in research and development, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

Further, because current domestic and global economic conditions and economies are uncertain, it is difficult to estimate the growth in various parts of the economy, including the markets in which we participate. Because parts of our budgeting and forecasting are reliant on estimates of growth in the markets we serve, the current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on our overall financial performance and impair the value of our common stock.

We May Experience Losses from Our Fixed-Price Contracts

Approximately 89% of our revenues for the first nine months of fiscal year 2006, 88% of our revenues in fiscal year 2005 and 89% of our revenues in fiscal year 2004 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 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.

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 occurrence 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 communications industry is highly competitive and competition is increasing. In addition, because our industry is 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.

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

Approximately 19% of our revenues for the first nine months of fiscal year 2006, 27% of our revenues in fiscal year 2005 and 24% of our revenues in fiscal year 2004 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,
- 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.

If Commercial Wireless Communications Markets Fail to Grow as Anticipated, Our Business Could Be Materially Harmed

A number of the commercial markets for our products in the wireless communications area, including our broadband products, have only recently developed. Because these markets are relatively new, it is difficult to predict the rate at which these markets will grow, if at all. If the markets for commercial wireless communications products fail to grow, or grow more slowly than anticipated, our business could be materially harmed. Conversely, to the extent that growth in these markets results in capacity limitations in the wireless communications area, it could materially harm our business and impair the value of our common stock.

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 nine months of fiscal year 2006, 51% of our revenues in fiscal year 2005 and 46% of our revenues in fiscal year 2004, 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,

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- 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.

We Depend Heavily on the VSAT Market

We derived approximately 20% of our revenues for the first nine months of fiscal year 2006, 26% of our revenues in fiscal year 2005 and 28% of our revenues in fiscal year 2004 from sales of VSAT communications networks. A significant decline in this market, increased competition from alternative technologies (DSL, cable and terrestrial wireless) or the replacement of VSAT technology by an alternative technology 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:

- 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 communications market in general, and the satellite communications market in particular, 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.

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.

A Decrease in the Selling Prices of Our Products Could Materially Harm Our Business

The average selling prices of wireless communications products historically decline over product life cycles. In particular, we expect the average selling prices of our products to decline as a result of competitive pricing pressures and customers who negotiate discounts based on large unit volumes. We also expect competition in this industry will continue to increase. To offset these price decreases, we intend to rely primarily on obtaining yield improvements and corresponding cost reductions in the manufacturing process of existing products and on the introduction of new products with advanced features, which can be sold at higher prices. However, we cannot assure you we will be able to obtain any yield improvements or cost reductions or introduce any new products in the future. To the extent we do not reduce costs or introduce new products in a timely manner, or our new products do not achieve market acceptance, 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 expended $10.4 million in the first nine months of fiscal year 2006, $8.1 million in fiscal year 2005 and $10.0 million in fiscal year 2004 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 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. 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 FASB issued a revised standard that requires that we record compensation expense in the statement of operations for employee stock options using the fair value method. The adoption of the new standard is expected 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 adoption of the new standard in fiscal year 2007 could impair the value of our common stock and result in greater stock price volatility.

We Depend on the Recruitment and Retention of Personnel with U.S. Government Security Clearances, and Our Failure to Attract and Retain Such Personnel Could Seriously Harm Our Business

Due to the specialized nature of our businesses, our future performance is dependent upon the continued services of our key engineering and management personnel with U.S. government security clearances. Our prospects depend in part upon our ability to attract and retain qualified engineering and management personnel for our operations. Competition for personnel with U.S. government security clearances is intense, and we may not be successful in attracting or retaining such qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations and financial condition.

We May Engage in Strategic Transactions That Could Result in Significant Charges and Management Disruption and Fail to Enhance Stockholder Value

From time to time, we consider strategic transactions and alternatives with the goal of maximizing stockholder value. These strategic transactions entail a high degree of risk. We will continue to evaluate potential strategic transactions and alternatives we believe may enhance stockholder value. These potential future transactions may include a variety of different business arrangements, including acquisitions, spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments. Although our goal is to maximize stockholder value, such transactions may have unexpected results that adversely affect our business and the trading price of our common stock. Any such transaction may require us to incur non-recurring or other charges and may pose significant integration challenges and management and business disruptions, which could harm our operating results and business prospects.

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 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 February 2, 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 within the meaning of the Private Securities Litigation Reform Act of 1995. 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 and similar expressions are generally intended to ident 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, which 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 December 30, 2005, 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 $5.9 million had a fair value of a net liability of $340,000 as of December 30, 2005. The fair value of this foreign currency forward contract as of December 30, 2005, would have changed by $560,300 if the foreign currency exchange rate for the Euro to the U.S. dollar on this forward contract had changed by 10%. We had no foreign currency transactions outstanding at December 31, 2004.

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 December 30, 2005, 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 December 30, 2005.

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.

February 8, 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)