VIASAT INC
Form 10-K
June 06, 2006

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

# Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
**For the fiscal year ended March 31, 2006**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
**For the transition period from to .**

**Commission File Number (0-21767)**

**VIASAT, INC.**
*(Exact name of registrant as specified in its charter)*

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

**6155 El Camino Real, Carlsbad, California 92009**
**(760) 476-2200**
*(Address, including zip code, and telephone number, including area code, of principal executive offices)*

**Securities registered pursuant to Section 12(b) of the Act:**
**None**

**Securities registered pursuant to Section 12(g) of the Act:**
**Common Stock, $.0001 Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of September 30, 2005 was approximately $529,168,888 (based on the closing price on that date for shares of the registrant s Common Stock as reported by the Nasdaq National Market). Shares of Common Stock held by each officer, director and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant s Common Stock, $.0001 par value, as of May 26, 2006 was 27,739,580.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant s fiscal year ended March 31, 2006.

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**VIASAT, INC.**

**FORM 10-K**
**For the fiscal year ended March 31, 2006**

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# PART I

## Item 1. *Business*

All references in this annual report to our fiscal year 2006 refer to the fiscal year ended on March 31, 2006. Unless otherwise indicated, all references in this annual report to periods of time (e.g., quarters and years) are to fiscal periods.

We were incorporated in California in 1986 and reincorporated in Delaware in 1996. Our website address is www.viasat.com. This website is not part of this filing. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material has been electronically filed with or furnished to the Securities and Exchange Commission (SEC). They are also available free of charge on the SEC s website at *www.sec.gov*. In addition, any materials filed with the SEC may be read and copied by the public at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

### Introduction

We are a leading provider of advanced digital satellite communications and other wireless and secure networking and signal processing equipment and services to the government and commercial markets. Although we initially focused primarily on developing satellite communication and simulation equipment for the U.S. government, we have successfully diversified into other related satellite and wireless markets serving government as well as commercial customers. During the period from April 2000 to January 2002, we acquired (1) a commercial satellite equipment business and large antenna manufacturing business from Scientific-Atlanta, Inc. (SA), (2) a satellite networks systems design business, Comsat Laboratories, from Lockheed Martin Global Telecommunications, LLC (LMGT), (3) a monolithic microwave integrated circuit (MMIC) and module business, US Monolithics, LLC (USM) and, in December 2005, (4) a commercial satellite equipment and custom chip design business, Efficient Channel Coding, Inc. (ECC). These acquisitions further enhanced our strategic positioning in the commercial and government wireless and satellite communication markets as well as significantly expanded our intellectual property portfolio. As a result of this diversification, we have transitioned from a primarily defense-oriented company to a company with approximately equal amounts of government and commercial business. We believe our diversification, combined with our ability to effectively apply technologies between government and commercial markets, provides us a strong foundation to sustain and enhance our leadership in advanced wireless communications and secure networking technologies.

Generally, our sales consist of either:

- Project contracts to study, research, develop, test, support, and manufacture customized communication systems or products for both government or commercial customers. Research and development costs for these customized projects and products are often customer-funded. Once completed, many of our customized communications products are later marketed and sold to other customers as standard off the shelf products.

- Selling, deploying, and supporting our standard off-the-shelf products for both government or commercial customers. These standard products are generally developed through a combination of customer and discretionary internal research and development funding.

Our customers include a variety of government and commercial entities. Government contracts are either direct with U.S. or foreign governments, or indirect through domestic or international prime contractors. Purchasers of our standard off-the-shelf products include U.S. and foreign governments, domestic and international prime contractors, telecommunications service providers, and commercial enterprises. We also enter into contracts to design, develop and manufacture customized satellite network systems and equipment for domestic and international commercial customers. Our individual contracts may range in value from thousands of dollars to tens of millions of dollars.

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**Segment Overview**

We are organized principally in two segments: government and commercial. Our government business encompasses specialized products principally serving defense customers and includes:

*Tactical Data Links.* Our Tactical Data Links product line primarily consists of our multifunction information distribution system (MIDS) product. The MIDS terminal operates as part of the Link-16 line-of-sight tactical radio system, which enables real time data networking among ground and airborne military users providing an electronic picture of the entire battlefield to each user in the network. We are also currently in the development phase of a MIDS terminal for the U.S. Department of Defense s (DoD) JTRS airborne radio program, referred to as MIDS-JTRS. We are one of only two current U.S. government certified providers of MIDS production units.

*Tactical Networking and Information Assurance.* Tactical Networking and Information Assurance products include our information security and ViaSat Data Controller (VDC) products. Our information security products enable military and government communicators to secure information up to Top Secret levels. Our VDC products provide reliable military tactical communication channels using innovative error correction technology. Technology from some of these products are integrated into some of our existing tactical radio products (such as MIDS and UHF DAMA satellite products) as well as sold on a stand-alone basis.

*Government Satellite Communication Systems.* We have a 15 year history of leadership in the UHF satellite communication terminal market. This includes the design and development of modems, terminals and test and training equipment operating over the military UHF satellite band. These products are used in manpack satellite communication terminals as well as airborne, ship, shore and mobile applications. In addition, we also specialize in leveraging our commercial satellite technology into military applications. We generally focus on opportunities for high-speed satellite communications products which operate in higher frequencies.

We believe our long standing strength in developing complex secure wireless and satellite networking communications technologies for both government and commercial customers provides us with opportunities for growth into new markets as the U.S. military looks to upgrade its secure wireless and satellite technology with a mix of customized development and commercial technologies.

The commercial segment comprises two business product groups: satellite networks and antenna systems. Our commercial business comprises an end-to-end capability to provide customers with satellite communication equipment solutions and includes:

*Consumer Broadband.* Our consumer products include the development of equipment and technology across multiple satellite standards, including the development of DOCSIS® (Data Over Cable Service Interface Specification)-based terminals and gateways.

*Mobile Broadband.* Our mobile broadband products include the design and development of airborne, maritime and ground mobile terminals and systems. Existing certified systems in the in-flight broadband market include Connexion by Boeing® and SKYLink for ARINC. We are also developing systems for the maritime and ground mobile markets.

*Enterprise VSAT.* Our Enterprise VSAT (Very Small Aperture Terminal) satellite communication products and services comprises a wide range of terminals, hubs, and networks control systems as well as network management services for customers in North America and internationally.

*Satellite Networking Systems Design and Technology Development.* We perform leading-edge research and development for satellite communications systems and have developed an extensive portfolio of technologies.

Technologies include satellite networking, beam forming modems, coding, voice and video encoding, IP and ATM via satellite, satellite ground terminals, onboard processing, advanced satellite design, and antennas.

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*Integrated Circuit Design and Development.* Our subsidiaries, USM and ECC, specialize in the design of integrated circuits, packaged components, and modules for commercial, military and space applications. Areas of expertise include high frequency communication technology, MMIC semiconductor design, high-power transceiver design, high levels of functional integration, high-frequency packaging and design for low-cost manufacturing.

*Antenna Systems.* We provide antenna systems for both commercial and defense communications. We have a 40-year legacy in the design, test, manufacture and installation of antennas from three to 18 meters. Applications for these antenna systems include large system gateways, VSAT or video broadcast hubs, image retrieval by satellite, transportable antennas, and telemetry, tracking and control.

With expertise in commercial satellite network engineering, gateway construction, and remote terminal manufacturing for all types of interactive communications services, we believe the diversity of our business provides the opportunity to seek new opportunities in a variety of emerging wireless markets and applications.

**Strategy**

Our objective is to leverage our advanced technology and capabilities to:

Increase our role as the government transitions to Internet Protocol (IP) based, highly secure, network-centric based warfare.

Develop high-performance, feature rich, low-cost technology to grow the size of the commercial enterprise and consumer satellite broadband markets while also capturing a significant share of these growing markets.

Maintain a leadership position, while reducing costs and increasing profitability, in our legacy satellite and wireless communications markets.

The principal elements of our strategy are:

*Address increasingly larger markets.* We have applied this same principle for the life of the company. The size of customer funded opportunities we can credibly address directly correlates to our annual revenue. By increasing our revenues, we anticipate we will be more successful in capturing customer funded R&D opportunities for increasingly larger projects.

*Steadily evolve into neighboring products, projects, technologies & markets.* We anticipate continued growth via evolutionary steps by:

1. Selling existing, or customized, versions of technologies we developed for one customer base to a different market. This principle can be applied, for instance, to different segments of the government market, or between government and commercial markets. It is the primary way we grow the market segments we address.

2. Selling new, but related, technologies or products to existing customers. This is the primary way we expand the breadth of technologies and products we offer.

*Careful targeting of new market opportunities.* We consider several factors in selecting new market opportunities:

1. *Are there meaningful entry barriers for new competitors?* Examples include specialized technologies or expertise, a large body of legacy software, or special relationships.

2. *Are we addressing right-sized niches consistent with our growth objectives?* We seek niches large enough to provide us with significant revenues, but are not likely to evoke excessive competition.

3. *Does it involve new, advanced, unproven, and/or customized technologies?* Our technology competence and focus makes us an attractive supplier to customers who understand, and are sensitive to, development risks associated with new technologies.

*A complementary mix of defense and commercial products, projects, and geographic markets.* We constantly aims for a diversified mix of businesses that is unified through common underlying technologies,

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customer applications, market relationships or other factors. We believe this complementary mix, combined with our ability to effectively apply technologies between government and commercial markets, provides us a strong foundation to sustain and enhance our leadership in advanced communications and networking technologies.

*Augment customer funded research and development with discretionary research and development to enter or leverage new markets or technologies.* We use availability of customer funding or co-investments for product development as an important factor in choosing where to apply our own discretionary research and development resources.

*Continue to take informed, diversified and prudent risks in advancing technologies to achieve leading and pioneering positions in target markets.* Our technical orientation and competence is usually most valuable in addressing programs involving significant technical challenges which often carry the greatest risks. We emphasize the ability to identify, evaluate, and resolve sources of technology risk in pursuing new program and market opportunities.

*Sustain a large (relative to our size) and highly proficient engineering staff to capture and perform our target projects.* Since customer funded research and development is an important aspect of our business, we believe it is important to sustain a large, highly competent, engineering team. We believe we offer a very competitive compensation, benefits and work environment to attract and maintain employees. Perhaps even more important, we believe we tend to seek and attract engineers who embrace our business approach and the associated technology challenges it offers. So far, this has enabled us to offer good value to our customers in terms of product performance, reduction of technological risks, and competitive pricing.

*High quality, cost effective outsourced manufacturing supply chain.* Since inception, we have chosen to strategically out-source much of our manufacturing operations. We believe this reduces operating costs, reduces capital investments, facilitates rapid adoption of the most modern and effective manufacturing technologies, provides flexible response to fluctuating product demand, and focuses our resources on designing for producibility. We manage out-sourced manufacturing through our ISO-9001:2000 quality process and have established enduring relationships with key suppliers.

**Government**

***Market Opportunity***

Our government revenues grew by over 20%, 37% and 56% during the fiscal years 2006, 2005 and 2004, respectively. While there may be several interpretations or explanations for our growth during these years, we believe there are three basic themes and believe those themes may persist in our government markets for several years:

*The critical role of collection and dissemination of real-time information in executing high-speed, high precision, highly mobile warfare over dispersed geographic areas.* There are two important aspects of this. The first is reflected in the Department of Defense s (DoD) transition to network-centric warfare, which emphasizes the importance of real time data networks of all types via multiple transmission media. The second is the growing importance of satellite-based communications, in particular, as the most reliable method of connecting rapidly moving forces who may simply out-run the range of terrestrial radio links.

*The growing importance of Internet Protocol (IP) networks in the DoD compared to older circuit based systems especially in light of network-centric warfare.* We believe IP networks will drive a fundamental restructuring of DoD s secure information networks, which will take several years to complete.

*We believe that over the next decade or so many of the previous generation of defense communications satellite networks will expire or become obsolete.* New programs are underway or in planning to define, develop, procure and deploy systems to replace them. While we have been successful in capturing defense satellite ground system business in the past, we believe these new programs present more opportunities for bidding on new contracts than we have seen historically.

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We believe these fundamentals offer growth opportunities for each of our government product areas.

Our government segment includes the following product lines: (1) Tactical Data Links, (2) Tactical Networking and Information Assurance, and (3) Government Satellite Communication Systems.

***Tactical Data Links***

Our Tactical Data Links product line is anchored by the MIDS terminal market and the MIDS Joint Tactical Radio System (MIDS JTRS) development program. We are a MIDS prime contractor and are one of only three international and one of two U.S. qualified providers of MIDS production units. To date, we have received orders for over 1,100 terminals.

MIDS is a specific implementation of a secure, anti-jam, tactical data radio intended primarily for air-to-air, air-to-ship, and air-to-ground real time transmission of situational awareness and command and control information using the Link-16 protocol. MIDS JTRS will be a Software Compliant Architecture (SCA) new generation radio system for the F/A-18 E/F initially that will perform all the current MIDS functionality and will be capable of operating advanced waveforms to meet future network centric operations radio system requirements.

MIDS terminals have been deployed all over the world and are fully operational in the U.S. Air Force, Navy and Army forces. Future plans include system upgrades to the MIDS terminals already deployed as well as terminals to be delivered in the future. We believe the U.S. government has invested substantially in Link-16 and MIDS and it is unlikely that other defense contractors will in the immediate future be qualified to supply Link-16 terminals for the DoD platforms designated to receive MIDS.

We also anticipate a number of other countries which operate their own versions of MIDS-capable platforms (e.g., F-16 s) or which use other tactical air platforms and tactical ground based systems but desire to interoperate with U.S. forces, to procure MIDS terminals. In aggregate, we believe the international market is approximately as large as the domestic U.S. market for MIDS. International customers may procure terminals directly from us, or have the U.S. government acquire them on their behalf via the Foreign Military Sales program.

MIDS terminals are currently in full rate production and in the next few years MIDS JTRS is expected to migrate from a development and qualification program to low rate initial production phase and then to full rate production. We believe this will likely lead to higher ordering rates in aggregate. While MIDS production represents the largest portion of this product line, we believe MIDS JTRS will eventually surpass the MIDS production rates. In addition, there are other related ongoing and potential opportunities including development of a low cost weapon data link and expanded requirements for Link-16 capabilities and support equipment.

We compete with Data Link Solutions (DLS), a joint venture between Rockwell Collins and BAE North America, and EuroMIDS, which is a consortium comprised of four European contractors, Selex (Italy), Thales (France), EADS (Germany), and Indra (Spain). We are co-developing, with DLS, the MIDS JTRS radio system under an accelerated contract for the U.S. Navy and U.S. Air Force with international participation in the program.

***Tactical Networking and Information Assurance***

*Information Assurance*

For many years, we have developed and manufactured Type 1 DoD approved communications security devices. Type 1 encryption devices are required for virtually any communication of classified military information over radio,

satellite, wire line, or fiber optic media. Type 1 encryption is used to protect information whether it is transmitted over military or commercial frequency bands or transmission systems. Prior to the year 2000, most of our previous Type 1 encryption devices were integrated or embedded into tactical radio products such as MIDS or our UHF DAMA satellite products.

During the past few years, DoD has moved toward IP encryption and developed a new standard to create an interoperable environment for such devices. The new standard is called HAIPE IS, or High Assurance Internet Protocol Encryption Interoperability Specification. The HAIPE IS standard has become the security foundation for the DoD s Global Information Grid (GIG), an initiative to achieve information superiority by connecting soldiers to the information they need, when they need it, no matter where they are. We are a charter member of the industry

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working group charged with maintaining and evolving the HAIPE IS standard. In 2004, we obtained certification for both our first and second HAIPE IS compliant cryptos, the KG-250 and the KG-250A. These are similar 100 megabits per second (Mbps) products that can be applied to different environments. In 2006, we received certification of our gigabit per second HAIPE IS compliant crypto, the KG-255.

Another important aspect to the information security market is the DoD s efforts to update its communications security products through an initiative known as Crypto Modernization. The focus of this initiative is to completely replace the DoD s legacy inventory of encryptors with a new generation of programmable cryptographic devices. We anticipate the U.S. government will invest approximately $10 billion over ten years to modernize this information security infrastructure. Some of this investment consists of the information assurance part of initiatives such as JTRS and TSAT, and some is through smaller programs specifically created to replace legacy encryption devices.

In response to these trends, we have developed a programmable, high assurance cryptographic architecture specifically designed to support Type 1 networking that is flexible enough to be applied to both stand-alone network encryptors and multi-channel embedded network encryptors. Our architecture, PSIAM, is a Programmable and Scalable Information Assurance Module architecture, that is designed to meet the requirements of Crypto Modernization, HAIPE IS and the GIG. We believe most of our growth in the information security market is due to our customers recognition that the PSIAM meets their emerging information assurance requirements. The KG-250, KG-250A and KG-255, and the Navy s Common Data Link System encryptor are all certified PSIAM based products. Other important PSIAM based products and programs undergoing certification which highlight our ability to compete using this approach include:

- The embedded programmable INFOSEC module for the U.S. Air Force s Family of Beyond Line of Sight Terminal (FAB-T).

- The embedded crypto subsystem for the MIDS JTRS.

- Our family of tactical high assurance filters including the JMINI High Assurance Guard for the U.S. Navy and the Secure Gateway/Trusted Filter for CECOM.

We are currently developing the second generation of PSIAM technology, reducing the size and cost of the implementations, and adding multi-level, multi-channel capabilities. We believe this technology investment will provide even greater growth potential than the first generation has the last few years.

*Tactical Networking*

For more than 10 years, we have offered VDC products which provide reliable data communications over noisy, error-prone radio networks. Our VDC product line is compatible with an interoperable military standard known as MIL-STD 188-184 and is primarily used on mobile tactical radios for reliable data communications. We manufacture both gateway and network edge versions of these products. Many of our product users are involved in special operations and similar light or highly mobile forces organizations. We believe we hold a leading position in a portion of this market with multi-band and SATCOM radio users, with approximately 25,000 data controller products fielded. We have strong name brand recognition with these products, which we believe provide excellent reliability and performance. The networking features of these products allow users to realize the connectivity goals of the GIG today using their legacy radios even before transformation communication programs such as JTRS are available, albeit at lower data rates. We offer applications supporting email, file transfer, and instant messaging that are optimized to run with our products to support extension of the tactical network to vehicle based and dismounted soldiers. We are currently integrating other IP applications such as situational awareness and mission planning into our product

offerings to increase the utility of our products to our customers.

There continue to be market opportunities in this product area through continual deployment of the gateway version of these products into the DoD s core network infrastructure, which in turn results in significant edge product sales. We have also developed improvements targeted at the customers current requirements, which include providing interface capability to every major tactical radio and computing device in the DoD inventory, providing messaging applications that take full advantage of the VDC s capabilities, and implementing an IP layer to network radio networks with wired networks.

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We seek to improve our VDC products by providing incremental advancements to both their network capabilities and communications performance. Our advantage in this market is our continuous product evolution and excellent customer support enabled by our unique knowledge of user requirements.

***Government Satellite Communication Systems***

Our Government Satellite Communication Systems (GSS) product line has expanded from UHF products and services to also address high speed terminals and high speed embedded modems. The product line of GSS consists primarily of stand-alone and embedded satellite modems, portable and deployable terminals, and test and training equipment operating over the military UHF, Defense Satellite Communication Systems (DSCS) satellites and military leased commercial satellites.

UHF satellite terminals are generally required to support a complex set of interoperable networking standards known as MIL-STD 188-182 and MIL-STD 188-183 also called, collectively, UHF DAMA (Demand Assigned Multiple Access). We are a leading supplier of UHF DAMA terminals, modems, and network control systems for both U.S. and allied military and prime contractors.

Our key UHF products include:

- The UHF DAMA satellite modem embedded in Raytheon s AN/PSC-5 manpack satcom terminal. (Raytheon has also designed our UHF DAMA modem into other related terminals such as the Tactical Tomahawk cruise missile and other multi-band tactical radios),
- The RT-18xx family of modular UHF satcom terminals for airborne, ship and shore installations,
- The MD-1324 stand-alone UHF DAMA modem,
- The DOCCT/S (DAMA Orderwire Control Channel Trainer/Simulator) test and training system, and
- Related UHF satellite terminal products including antenna combining systems, network control terminals and software, and end-user software applications.

Recently we have been expanding our government satellite systems focus to expand the product lines for manpack satcom terminals and to leverage our broadband commercial satellite technology to provide high speed network solutions into the military satellite communications market for the U.S. government and its prime contractors. We believe there are significant growth opportunities providing IP network solutions to airborne, ship, shore and mobile platforms to government end users that need high-speed access beyond the reach of terrestrial networks.

Our new products include:

- The EBEM High Speed modem, which is used for fixed sites and shipboard tactical installations operating on DSCS and leased commercial satellites. This product is currently completing development testing and will be entering full scale production during fiscal year 2007.
- Integrated Transportable satellite terminals based on our existing enterprise VSAT, bandwidth on demand satellite network systems such as the LINKWAY® and LinkStar®. The Integrated Transportable terminals satisfy near term communications requirements of our U.S. government customers. The Joint Combat Camera Imagery and Coalition Military Network systems fielded in Iraq, and the FEMA mesh systems fielded to

support disaster relief exemplify these types of products.

The on-the-move ground mobile terminal family, which offers true broadband IP access to vehicles needing high speed, affordable beyond line-of-sight network access. This product line continues to be evaluated by both U.S. government and prime contractors for a variety of mobile applications.

The new integrated secure ruggedized portable terminal, which is being developed to operate on the Inmarsat BGAN service while providing Type-1 secure IP connectivity. Development is expected to be completed in fiscal year 2007.

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## Customers and Markets

### *Customers*

The primary customers for our government segment are the U.S. DoD, other U.S. government department agencies and departments, international allied nations and large defense contractors. While most of our customers are based in the United States, many of our large defense contractor customers have recently been leveraging our network design experience and the advanced capabilities of our products to sell communications products to international military forces. Examples of large defense contractors with which we have worked in the past include Raytheon Systems Company, Lockheed Martin Corporation, The Boeing Company, Northrop Grumman Corporation, ITT Industries, and Selex.

### *Sales and Marketing*

We use both direct and indirect sales channels to sell our government products. We have approximately 15 sales and marketing personnel who offer our government products. All but three of these sales personnel are located in the United States. International government sales are conducted primarily through our U.S. sales personnel. Although many of our sales are generated from direct sales, we often sell our products to prime contractors responsible for developing the entire network system where our products are integrated and embedded into the system.

Our government sales teams consist of engineers, program managers, marketing managers and contract managers who work together to identify business opportunities, develop customer relationships, develop solutions for the customer s needs, prepare proposals and negotiate contractual arrangements. The period of time from initial contact through the point of product sale and delivery can take over three years for more complex product developments or for product development including prototypes and demonstrations. Products already in production can usually be delivered to a customer between 90 to 180 days.

Our indirect sales are primarily generated from strategic relationships with prime contractors for large defense projects and referrals from existing large defense contractor customers.

Similar to our efforts on the commercial side, we continue to increase the awareness of the ViaSat brand through a mix of positive program performance and our customers recommendation as well as public relations, advertising, trade show selling and conference speaking engagements.

### *Competition*

Within our government segment, we generally compete with defense electronics product, subsystem or system manufacturers such as Rockwell Collins, L-3 Communications, Harris Corporation, General Dynamics, BAE Systems or similar companies. We may occasionally compete directly with the largest defense prime contractors, who are also customers, including Boeing, Lockheed Martin, Northrop Grumman or Raytheon Systems. We also frequently partner or team with these same companies (large or mid-tier) to compete against other teams for large defense programs. Almost all of the companies with which we compete are substantially larger than us.

## Commercial

### *Market Opportunity*

The introduction of satellite communications technology in the 1960 s represented a fundamental change in communications networks. A communications satellite, in essence, provides the ability to route a communications signal through the sky. Signals are sent from users on the ground to the satellite, which then amplifies the signal and sends it back to end-users on the ground. Depending on the altitude of a satellite s orbit, it can cover a geographic area, or footprint, larger than the size of a continent. The key components of a satellite communications system include:

satellites, which relay communications signals to and from the users,

gateways, which control the satellite network and connect it to communications networks on the ground, and

user terminals (indoor unit and outdoor unit) connecting the users to the satellite network.

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The essential advantage of satellite communications is that it allows a network provider to rapidly deploy new communications services to large numbers of people anywhere in the footprint of the satellite. Consequently, satellites can be used to deploy communication services in developed and developing markets in a shorter period of time than building ground-based infrastructure. Moreover, in some areas satellite solutions are less expensive than terrestrial wired and wireless alternatives. As satellite communications equipment becomes less expensive and new capabilities emerge in satellite communications technology, we believe the market for satellite communications offers growth opportunities.

The commercial satellite communications industry is expected to be driven by the following major factors: (1) world-wide demand for communications services in general, and broadband data networks in particular, (2) the improving cost-effectiveness of satellite communications for many uses, (3) recent technological advancements which broaden applications for and increase the capacity and efficiency of satellite based networks, and (4) global deregulation and privatization of government-owned telecommunications carriers.

We provide a variety of satellite communications network solutions for multiple sectors of the commercial market.

*Data Networks.* Satellite networks are well suited for data networks which focus on (1) rapidly deploying new services across large geographic areas, (2) reaching multiple user locations separated by long distances, (3) filling in gaps or providing support for data points of congestion, or bottlenecks in ground-based communications networks, and (4) providing communications capabilities in remote locations and in emerging markets where ground-based infrastructure has not yet been developed. In addition, satellite networks are used as a substitute for, or supplement to, ground-based communications services such as frame relay, digital subscriber lines, fiber optic cables, and Integrated Services Digital Networks (ISDN). We believe satellite data network products and services will present us with growth opportunities as commercial data networks using satellites are applied in developed and developing markets throughout the world.

*Broadband Internet Applications.* In recent years, there has also been an increase in the use of satellites for broadband Internet traffic. This growth has been centered on connecting consumers and businesses with the Internet. Satellite capacity is often used where fiber cable is prohibitively expensive or rare, such as rural areas or emerging countries. More recently, certain satellite operators have begun investing in next generation spot-beam satellites specifically designed for low cost broadband access. We expect satellite communications to offer a cost-effective augmentation capability for Internet Service Providers (ISPs), service providers offering broadband internet access, particularly in markets where ground-based networks are unlikely to be either cost-effective or abundant. Additionally, satellite broadcast architecture provides an alternative for ISPs, which are dealing with congestion associated with the distribution of increasing amounts of high-capacity multimedia content on the Internet.

Our commercial business offers a broad range of satellite communications and other wireless communications products and solutions in the following product areas: (1) Satellite Networks comprising consumer and mobile broadband products, enterprise VSAT networks products and services, systems design and technology development and integrated circuit and MMIC design and development; and (2) Antenna Systems.

**Satellite Networks**

***Consumer Broadband***

Our consumer broadband products enable broadband access to the global information infrastructure via satellites. We provide system solutions, equipment and support to service providers who distribute directly to end users, such as consumers, and provide the equipment employed by the end user of the service.

For the fixed site, last mile broadband access market, we believe the key elements for a cost-effective solution for our customers are (1) access to specialized broadband satellites, which provide low cost satellite capacity and better efficiencies (2) availability of low cost customer premise equipment (CPE), and (3) low per subscriber operational and support costs to support large scale deployments. We focus on providing solutions which make more efficient use of the available satellite bandwidth (i.e., more subscribers per satellite), leverage mass market chipsets and innovative radio frequency technology to create low cost CPE, and include an extensive set of tools to

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automate customer fulfillment and support. Equally important is our emphasis on working closely with satellite operators (e.g., WildBlue and Telesat) which are investing in next generation satellites specifically designed for low cost broadband access and service providers (e.g., the National Rural Telecommunications Cooperative, AT&T and Grupo W Telecom) with the distribution channels and support infrastructure to successfully capture the target end users.

We have pioneered development of DOCSIS-based technology for low cost CPE and network scalability. Our portfolio of broadband access technologies also includes advanced products to improve capacity on each satellite.

***Mobile Broadband***

With the emergence of increasingly capable satellites, we have been able to leverage our spread spectrum and satellite networking technologies to develop high data-rate, cost-effective mobile broadband products. Existing certified systems in the in-flight broadband market include Connexion by Boeing® and SKYLink for ARINC. We have certified products and systems for in-flight, high speed, two-way Internet and broadcast applications. We have also developed complementary products for the maritime and ground mobile markets.

For the mobile broadband access market, we believe the key elements for a cost-effective customer solution are (1) ubiquitous coverage (including regulatory approvals), (2) equipment suitable for the mobile platform and (3) sufficient capacity and speed to distinguish the service from mobile telephony or more limited data rate services, such as those provided by Inmarsat. For this market, we focus on solutions with unique technical characteristics necessary to operate at high data rates using a small antenna on a moving platform (commercial aircraft, business jets, ships, trains, trucks, automobiles). Our experience with spread spectrum systems with our government products allows us to leverage the right technologies into an integrated platform. We believe it is also important to partner with satellite operators which are committed to providing broadband coverage in areas needed by the mobile market (e.g. Connexion by Boeing® and SES Americom/ARINC).

We believe our advantages in this market include our high performance spread spectrum technology, our efficient network management platform, our broadband frequency reuse technology and our position as the current supplier to the leading service providers in this market.

***Enterprise VSAT Networks***

We are a global supplier of very small aperture terminals (VSAT) satellite networks, services and products. Our customers include enterprises as well as service providers, satellite operators, and the U.S. and foreign governments. We design, manufacture and sell satellite-networking products and provide services associated with their use and life cycle support. We also manage the delivery, installation and initial activation of the customer equipment around the world. In addition, we offer long-term software maintenance agreements, technical support agreements and operate a 24/7 network operations center to support our customer base. In North America, we own and operate a VSAT shared hub network and offer satellite network service to enterprise customers.

Customers use our products to enable connectivity in corporate networks, retail facilities, schools, public institutions, oil and gas exploration and anywhere quickly deployable, ubiquitous, communications infrastructure is needed. The products are also used to extend broadband connectivity to various locations for Internet and other telecommunications requirements including VOIP. Once installed and activated, our systems enable customers to transport data, video, and voice communication within a private network or around the world.

We believe our technical excellence, and large portfolio of satellite technology (enterprise, consumer and government) allows us to react quickly to market requirements and cost effectively implement new features and applications

creating a competitive advantage for us in the enterprise VSAT market. Our ability to increasingly leverage the manufacturing cost savings from the higher volumes related to our consumer broadband business should enhance our ability to offer cost-effective enterprise VSAT equipment and solutions.

***Satellite Networking Systems Design and Technology Development***

We perform research, systems engineering, and custom product design and development in satellite communications for ground and space systems. Specifically, we have expertise in the areas of satellite network design, planning, and management; beam forming; modulation and coding; advanced networking and protocols; resource control and management; signal processing; payload architecture design, modem and terminal design and development, Internet protocol techniques, and modeling, analysis, and simulation.

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In addition to the DOCSIS-based technology, we are an innovator in satellite communication components and systems including Digital Video Broadcast-Return Channel Satellite (DVB-RCS) technology and products featuring the new DVB-S2 standard. DVB-S2 is the latest advance in transmission technique from the Digital Video Broadcasting Project industry consortium (www.dvb.org) and features a variety of technology enhancements over the current DVB-S standard.

Our strategy is to leverage our reputation as a center of excellence for innovative ideas and technologies in satellite communications to win research and development programs funded by government and commercial customers. We believe we have talented satellite communications engineers encompassing many relevant disciplines, a large and diverse portfolio of intellectual property, and existing platforms and products that can be enhanced and customized to meet customers requirements. We believe these strengths give us a competitive advantage to capture engineering services and system design and development programs in the satellite communications market. Typical satellite communications companies in this industry do not perform customized design and development work for both government and commercial customers. Instead, most companies only sell their standard hardware and software products. Although some companies build large networks with terminals and gateways, we believe we are one of the few companies with the ability to design and deliver complex customized networks incorporating many advanced networking, communications, and signal processing techniques and integrating various hardware and software elements.

***Integrated Circuit Design and Development***

Our wholly owned subsidiaries, USM and Efficient Channel Coding, provides custom high frequency integrated circuits and assemblies to select commercial and government customers. Targeted markets include consumer and mobile broadband, military airborne and shipboard, space-based electronics, terrestrial based interactive satellite communications and enterprise VSAT. We have access to a wide range of integrated circuit technologies allowing us to offer optimum solutions for a given application.

Our primary strategy is to offer fast turn, high performance custom integrated circuit solutions to specific customers and markets. We tend to be selective in the opportunities we pursue thereby focusing our resources to gain maximum market penetration. Targeted opportunities include those with volume production potential and those which fund technology development applicable to adjacent high-volume markets. We operate in a fab-less business environment leveraging domestic and off-shore contract manufacturing, including semiconductor wafer manufacturing, to provide the highest value to our customers. This approach avoids the high cost of internal capitalization and, where allowed by federal law, leverages the lower cost manufacturing available outside the United States. Another key strategy is to aggressively reduce product costs which in turn enables new markets to develop. We have highly skilled engineers who have extensive integrated circuit and high-frequency module design and development experience. Skills include electrical design, mechanical and thermal design, and manufacturing process engineering.

**Antenna Systems**

We are a global provider of fixed and mobile ground-based antenna systems for the following applications: (1) gateway infrastructure, (2) high rate downloads, (3) military tactical and strategic terminals, (4) tracking, telemetry and control, and (5) antenna products. Our products include antennas, servo control equipment, monitor and control software, and specialty converters and modems. These systems support functions in the L, S, C, X, Ku, and Ka-band frequency spectrums.

*Gateways.* Our gateway products represent a key component of our ability to offer complete network development and integration services. The gateway products connect satellites to the communications infrastructure on the ground, such as IP networks. We offer a number of different gateway products depending on the type, speed and size of the

network. The gateways consist of our internally developed antenna and signal processing hardware and software as well as third party hardware. Although each of these components employs advanced technologies, the most complex components of a gateway are the overall system design and the software used to integrate each of the hardware components and operate the system. Gateways represent a key-operating component

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of any satellite network since gateways are required to interface the satellite portion of the network to the terrestrial communications network.

We believe we will continue to derive benefits and efficiencies from our gateway building capabilities. Since the gateway is a complex and central component of any network, the optimization of the gateway for the specific network use is critical to optimizing the performance of the entire network. The ability to provide gateways and integrate those gateways into our innovative network solutions should provide us with an advantage over other network manufacturers and integrators, most of which purchase gateways from third parties. We have extensive experience in developing gateways for systems using Ka-band technologies.

*High Rate Downloads.* For over 20 years we have been a leader in designing and providing ground stations for receiving high data rate downloads from satellites such as those used for imaging and remote sensing of the earth s resources. These data are often collected for both civilian and military purposes. Our ground station products typically include software to provide satellite pre-mission planning, automated pre-pass set-up, system performance integrity analysis, signal routing assignments and maintenance actions.

*Military Terminals.* Our military terminal products are used to provide tactical and strategic communications either over satellites or for point-to-point applications. These systems range from small diameter antennas with associated control equipment for shipboard applications to large diameter antenna systems for military gateway applications. These systems include advanced technology Ka-band antenna systems.

*Tracking, Telemetry and Control.* Our tracking, telemetry and command products are designed to provide a means for monitoring aircraft and missiles during flight tests as well as monitoring and controlling satellites. This equipment is used by the government and commercial flight test ranges as well as by commercial satellite operators.

*Antenna Products.* Our antenna products provide standard off-the-shelf antennas for typical geosynchronous satellite applications. Although our antenna systems are often sold and integrated with our other satellite communication products, we also offer a wide range of antenna systems as separate units. Our antennas range from 4.6 meters to 18 meters in diameter. Customers of our antenna systems include cable TV uplink stations and cable system providers that operate head-end receive stations, VSAT service providers, and various satellite communication system integrators that require traditional satellite communication capability.

## Customers and Markets

### *Customers*

The majority of our commercial segment customers are satellite network integrators, large communications service providers and corporations requiring complex communications and networking solutions. Over the past couple of years, we have significantly expanded our commercial customer base both domestically and internationally.

Significant commercial customers in the last fiscal year included WildBlue, Eutelsat, Intelsat, Boeing, ARINC, SES Americom, Telesat, Shin Satellite, Grupo W, Telespazio, SMART, ITT, Honeywell and Lockheed Martin.

### *Sales and Marketing*

We primarily use direct sales channels to market and sell our products and services. Our marketing and sales activities are organized geographically into domestic and global markets. Our sales and marketing group includes approximately 47 persons.

Our sales teams consist of regional sales directors, regional sales managers and sales engineers, who act as the primary interface to establish account relationships and determine technical requirements for customer networks. In addition to our sales force, we maintain a highly trained service staff to provide technical product and service support to our customers. The sales cycle in the commercial satellite network and gateway market is lengthy and it is not unusual for a sale to take up to 18 months from the initial contact through the execution of the agreement. The sales process often includes several network design iterations, network demonstrations and pilot networks consisting of a few sites.

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In addition, we seek to develop key strategic relationships to market and sell our network products and services. We seek strategic relationships and partners based on many factors, including financial resources, technical capability, geographic location and market presence. We also obtain sales to new customers through referrals from existing customers, industry suppliers, and other sources such as participation in trade shows and advertising. We actively work at increasing awareness for our brand through a mix of public relations, advertising, trade show selling and conference speaking engagements.

Additionally, we direct our sales and marketing efforts to our strategic partners, primarily through our senior management relationships. In some cases a strategic ally may be the prime contractor for a system or network installation and will subcontract a portion of the project to us. In other cases, the strategic ally may recommend us as the prime contractor for the design and integration of the network.

We provide repair, upgrade and technical support services for our delivered products and systems. Through our sales teams and support services, we are constantly made aware of customers needs and their use of products and services. Accordingly, a superior level of continuing customer service and support is integral to our objective of developing and maintaining long-term relationships with our customers. The majority of our service and support activities are provided by our field engineering team, systems engineers, and sales and administrative support personnel, both on-site at the customer s location and by telephone.

***Competition***

The commercial communications industry is highly competitive. As a provider of commercial network and satellite ground station antenna products, and as a designer of commercial network solutions in the United States and internationally, we compete with a number of wireless and ground-based communications service providers as well as established ground station antenna manufacturers. Many of these 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. To compete with these providers, we emphasize:

- the overall cost of our antenna systems and satellite networks, which can include equipment, installation and bandwidth costs, as compared to products offered by ground-based and other satellite service providers,
- the distinct advantages of satellite data networks,
- our end-to-end network implementation capabilities,
- our network management experience, and
- technical advantages and advanced features of our antenna systems as compared to our competitors offerings.

Our principal competitors in Satellite Networks are Hughes Communications, Inc., Gilat Satellite Networks Ltd., ND Satcom and iDirect Technologies, each of which offers a broad range of satellite communications products and services. Our Satellite Networks business also competes with a number of various competing technologies such as digital subscriber lines, frame relay, cable modems as well as emerging technologies such as WiMAX. Our principal competitors in the supply of antenna systems are Andrew Corporation, General Dynamics (VertexRSI) and L-3 Titan.

In competing with these companies, we emphasize:

- the innovative and flexible features integrated into our products,

our proven designs and network integration services for complex, customized network needs, and

the increased bandwidth efficiency offered by our networks and products.

**Strategic Ventures**

*Teaming Arrangements.* We regularly enter into teaming arrangements with other government contractors to more effectively capture complex government programs. In these teaming arrangements we may act as either the

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prime contractor or subcontractor bidder. Once awarded a contract, generally the prime contractor is obligated, with some exceptions, to award a contract to the relevant subcontractors on the team.

We expect to continue to actively seek strategic relationships and ventures with companies whose financial, marketing, operational or technological resources can accelerate the introduction of new technologies and the penetration of new markets.

**Research and Development**

We believe our future success depends on the ability to adapt to the rapidly changing satellite communications and related signal processing and networking software environment. Therefore, the continued timely development and introduction of new products is essential in maintaining our competitive position. We develop most of our products in-house and have a research and development and engineering staff, which includes over 683 engineers.

A significant portion of our research and development efforts have generally been conducted in direct response to the specific requirements of a customer s order and, accordingly, these amounts are included in the cost of sales when incurred and the related funding is included in revenues at that time.

The portion of our contract revenues which includes research and development funded by government and commercial customers during fiscal year 2006 was approximately $109.5 million, during fiscal year 2005 was approximately $105.7 million, and during fiscal year 2004 was approximately $81.0 million. In addition, we incurred $15.8 million in fiscal year 2006, $8.1 million in fiscal year 2005, and $10.0 million in fiscal year 2004, on independent research and development, which is not directly funded by a third party. Funded research and development contains a profit component and is therefore not directly comparable to independent research and development. As a government contractor, we also are able to recover a portion of our independent research and development expenses, consisting primarily of salaries and other personnel-related expenses, supplies and prototype materials related to research and development programs.

**Manufacturing**

Our manufacturing objective is to produce high-quality products that conform to specifications at the lowest possible manufacturing cost. We primarily utilize a range of contract manufacturers, based on the volume of the production, to reduce the costs of products and to support rapid increases in delivery rates when needed. As part of our manufacturing process, we conduct extensive testing and quality control procedures for all products before they are delivered to customers.

Contract manufacturers produce products for many different customers and are able to pass on the benefits of large scale manufacturing to their customers. These manufacturers are able to achieve high quality products with lower levels of costs by (1) exercising their high-volume purchasing power, (2) employing advanced and efficient production equipment and systems on a full-time basis, and (3) using a highly skilled workforce. Our primary contract manufacturers include Spectral Response, Inc., SMS Technologies, Inc. MC Assembly, NJRC, MTI and Benchmark.

Our experienced management team facilitates the efficient contract manufacturing process through the development of strong relationships with a number of different domestic and off-shore contract manufacturers. By negotiating beneficial contract provisions and purchasing some of the equipment needed to manufacture our products, we retain the ability to move the production of our products from one contract manufacturing source to another if required. Our operations management has experience in the successful transition from in-house production to contract manufacturing. The degree to which we employ contract manufacturing depends on the maturity of the product. We intend to limit our internal manufacturing capacity to new product development support and customized products that

need to be manufactured in strict accordance with a customer s specifications and delivery schedule. Therefore, our internal manufacturing capability for standard products has been, and is expected to continue to be, very limited, and we intend to rely on contract manufacturers for large-scale manufacturing.

We also rely on outside vendors to manufacture specific components and subassemblies used in the production of our products. Some components, subassemblies and services necessary for the manufacture of our products are obtained from a sole supplier or a limited group of suppliers. In particular, Texas Instruments and Broadcom are sole

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source suppliers of certain digital signal processing chips, which are critical components we use in many of our products.

**Backlog**

As reflected in the table below, funded and firm (funded plus unfunded) backlog increased during fiscal year 2006 with the increases in firm backlog coming from our commercial segment. New contract awards in the current fiscal year increased backlog to a new historical high for us.

| | March 31, 2006 | April 1, 2005 |
|---|---|---|
| | (In millions) | |
| **Firm backlog** | | |
| Government segment | $ 183.7 | $ 194.6 |
| Commercial segment | 191.2 | 167.3 |
| Total | $ 374.9 | $ 361.9 |
| **Funded backlog** | | |
| Government segment | $ 132.9 | $ 109.4 |
| Commercial segment | 190.7 | 163.9 |
| Total | $ 323.6 | $ 273.3 |
| Contract options | $ 13.8 | $ 23.0 |

The firm backlog does not include contract options. Of the $374.9 million in firm backlog, approximately $256.4 million is expected to be delivered in fiscal year 2007, and the balance is expected to be delivered in fiscal year 2008 and thereafter. We include in our backlog only those orders for which we have accepted purchase orders. Over the last year, as more of our products have been placed into market, we have seen a greater percentage of awards from book and ship-type orders. This has resulted in backlog not growing as fast as the past three fiscal years.

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 would require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related contracts.

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 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.

**Government Contracts**

Substantial portions of our revenues are generated from contracts and subcontracts with the DoD and other federal government agencies. Many of our contracts are competitively bid and awarded on the basis of technical merit, personnel qualifications, experience and price. We also receive some contract awards involving special technical capabilities on a negotiated, noncompetitive basis due to our unique technical capabilities in special areas. The Federal Acquisition Streamlining Act of 1994 has encouraged the use of commercial type pricing on dual use products. Our future revenues and income could be materially affected by changes in procurement policies, a reduction in expenditures for the products and services we provide, and other risks generally associated with federal government contracts.

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We provide products under federal government contracts that usually require performance over a period of several months to five years. Long-term contracts may be conditioned upon continued availability of congressional appropriations. Variances between anticipated budget and congressional appropriations may result in a delay, reduction or termination of these contracts. Contractors often experience revenue uncertainties with respect to available contract funding during the first quarter of the U.S. government s fiscal year beginning October 1, until differences between budget requests and appropriations are resolved.

Our federal government contracts are performed under cost-reimbursement contracts, time-and-materials contracts and fixed-price contracts. Cost-reimbursement contracts provide for reimbursement of costs and for payment of a fee. The fee may be either fixed by the contract or variable, based upon cost control, quality, delivery and the customer s subjective evaluation of the work. Under time-and-materials contracts, we receive a fixed amount by labor category for services performed and are reimbursed for the cost of materials purchased to perform the contract. Under a fixed-price contract, we agree to perform specific work for a fixed price and, accordingly, realize the benefit or detriment to the extent that the actual cost of performing the work differs from the contract price. Revenues generated from contracts with the federal government or our prime contractors for fiscal year 2006 were approximately 22% from cost-reimbursement contracts, approximately 2% from time-and-materials contracts and approximately 76% from fixed-price contracts of total revenues.

Our allowable federal government contract costs and fees are subject to audit by the Defense Contract Audit Agency. Audits may result in non-reimbursement of some contract costs and fees. While the government reserves the right to conduct further audits, audits conducted for periods through fiscal year 2001 have resulted in no material cost recovery disallowances for us.

Our federal government contracts may be terminated, in whole or in part, at the convenience of the U.S. government. If a termination for convenience occurs, the U.S. government generally is obligated to pay the cost incurred by us under the contract plus a pro rata fee based upon the work completed. Contracts with prime contractors may have negotiated termination schedules that apply. When we participate as a subcontractor, we are at risk if the prime contractor does not perform its contract. Similarly, when we act as a prime contractor employing subcontractors, we are at risk if a subcontractor does not perform its subcontract.

Some of our federal government contracts contain options that are exercisable at the discretion of the customer. An option may extend the period of performance for one or more years for additional consideration on terms and conditions similar to those contained in the original contract. An option may also increase the level of effort and assign new tasks to us. In our experience, options are exercised more often than not.

Our eligibility to perform under our federal government contracts requires us to maintain adequate security measures. We have implemented security procedures that we believe adequately satisfy the requirements of our federal government contracts.

**Regulatory Environment**

Some of our products are incorporated into wireless communications systems that are subject to regulation domestically by the Federal Communications Commission and internationally by other government agencies. Although the equipment operators and not us are responsible for compliance with these regulations, regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards which define the current networking environment, could materially adversely affect our operations by restricting development efforts by our customers, making current products obsolete or increasing the opportunity for additional competition. Changes in, or our failure to manufacture products in compliance with, applicable regulations could materially harm our business. In addition, the increasing demand for wireless communications has exerted pressure on

regulatory bodies world wide to adopt new standards for these products, generally following extensive investigation and deliberation over competing technologies. The delays inherent in this government approval process have in the past caused and may in the future cause the cancellation, postponement or rescheduling of the installation of communication systems by our customers, which in turn may have a material adverse effect on the sale of our products to the customers.

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We are also subject to a variety of local, state and federal government regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances used to manufacture our products. The failure to comply with current or future regulations could result in the imposition of substantial fines on us, suspension of production, alteration of our manufacturing processes or cessation of operations. To date, these regulations have not had a material effect on our business, as we have neither incurred significant costs to maintain compliance nor to remedy past noncompliance.

We believe we operate our business in material compliance with applicable government regulations. We are not aware of any pending legislation that if enacted could materially harm our business.

In addition to the local, state and federal government regulations, we must comply with applicable laws and obtain the approval of the regulatory authorities of each foreign country in which we operate. The laws and regulatory requirements relating to satellite communications and other wireless communications systems vary from country to country. Some countries have substantially deregulated satellite communications and other wireless communications, while other countries maintain strict and often burdensome regulations. The procedure to obtain these regulatory approvals can be time-consuming and costly, and the terms of the approvals vary for different countries. In addition, in some countries there may be restrictions on the ability to interconnect satellite communications with ground-based communications systems.

**Intellectual Property**

We rely on a combination of patents, trade secrets, copyrights, trademarks, service marks and contractual rights to protect our intellectual property. We attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants, and through other security measures. Although we intend to protect our rights vigorously, we cannot assure you that these measures will be successful. In addition, the laws of some countries in which our products are or may be developed, manufactured or sold may not protect our products and intellectual property rights to the same extent as the laws of the United States.

While our ability to compete may be affected by our ability to protect our intellectual property, we believe that, because of the rapid pace of technological change in the satellite and other wireless communications industry, our technical expertise and ability to introduce new products on a timely basis will be more important in maintaining our competitive position than protection of our intellectual property. Patent, trade secret and copyright protections are important but must be supported by other factors such as the expanding knowledge, ability and experience of our personnel, new product introductions and frequent product enhancements. Although we continue to implement protective measures and intend to defend vigorously our intellectual property rights, we cannot assure you that these measures will be successful.

In the event of litigation to determine the validity of any third party s claims, the litigation could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not the litigation is determined in our favor. The wireless communications industry has been subject to frequent litigation regarding patent and other intellectual property rights. Leading companies and organizations in the industry have numerous patents that protect their intellectual property rights in these areas. In the event of an adverse result of any litigation, we could be required to expend significant resources to develop non-infringing technology or to obtain licenses to the technology that is the subject of the litigation.

The following marks are our trademarks: AltaSec®, ArcLight®, LinkStar®, LinkStarS2tm, LINKWAY®, LinkWayS2tm, Skylinx®, StarWire®, SURFBEAM®, and ViaSat®, V-Chaintm. COMSAT Laboratories is a licensed trade name of ours.

**Employees**

As of March 31, 2006, we had 1,289 employees (of which 59 were temporary employees), including approximately 683 in engineering and research and development, 47 in sales and marketing, 228 in production, and 331 in corporate, administration and production coordination. None of our employees are covered by a collective

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bargaining agreement and we have never experienced any strike or work stoppage. We believe that our relations with our employees are good.

## Item 1A. *Risk Factors*

You should consider each of the following factors as well as the other information in this annual 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 annual 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 24% of our revenues in 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 fiscal year 2006, 27% of our revenues in fiscal year 2005 and 24% of our revenues in fiscal year 2004. Further, we derived approximately 19% of our revenues in 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. The failure of these customers to place additional orders or to maintain these contracts with us for any reason, including any downturn in their business or financial condition, or our inability to renew our contracts with these customers or obtain new contracts when they expire, could materially harm our business and impair the value of our common stock.

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

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

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

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

We are often party to government and commercial contracts involving the development of new products. We derived approximately 25% of our revenues in 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

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performance obligations or project milestones in a contract, generally, the other party has not elected to terminate the contract or seek damages from us. However, we cannot assure you in the future other parties will not terminate their contracts or seek damages from us. If other parties elect to terminate their contracts or seek damages from us, it could materially harm our business and impair the value of our common stock.

***We Face Potential Product Liability Claims***

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

***We May Experience Losses from Our Fixed-Price Contracts***

Approximately 88% of our revenues in 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.

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

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

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

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

Our reliance on contract manufacturers and on sole suppliers or a limited group of suppliers involves several risks. We may not be able to obtain an adequate supply of required components, and our control over the price, timely delivery, reliability and quality of finished products may be reduced. The process of manufacturing our products and some of our components and subassemblies is extremely complex. We have in the past experienced and may in the future experience delays in the delivery of and quality problems with products and components and subassemblies from

vendors. Some of the suppliers we rely upon have relatively limited financial and other resources. Some of our vendors have manufacturing facilities in areas that may be prone to natural disasters and other natural occurrence that may affect their ability to perform and deliver under our contract. If we are not able to

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obtain timely deliveries of components and subassemblies of acceptable quality or if we are otherwise required to seek alternative sources of supply, or to manufacture our finished products or components and subassemblies internally, it could delay or prevent us from delivering our systems promptly and at high quality. This failure could damage relationships with current or prospective customers, which, in turn, could materially harm our business and impair the value of our common stock.

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

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

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

We depend on a limited number of key technical, marketing and management personnel to manage and operate our business. In particular, we believe our success depends to a significant degree on our ability to attract and retain highly skilled personnel, including our Chairman and Chief Executive Officer, Mark D. Dankberg, and those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for these types of personnel is intense, and the loss of key employees could materially harm our business and impair the value of our common stock. We do not have employment agreements with any of our officers.

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

Approximately 18% of our revenues in 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,

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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.

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

Our government segment revenues were approximately 49% of our revenues in 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,

the ability of competitors to protest contractual awards,

penalties arising from post-award contract audits,

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

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

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

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

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

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

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

incur additional indebtedness,

create liens on our assets,

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

consolidate, merge and sell assets,

engage in certain transactions with affiliates, and

make acquisitions.

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

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

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

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

In the past we have violated our credit facility covenants and received waivers for these violations. We cannot assure that we will be able to comply with our financial or other covenants or that any covenant violations will be waived in

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

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

The wireless and satellite communications markets are subject to rapid technological change, frequent new and enhanced product introductions, product obsolescence and changes in user requirements. Our ability to

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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.

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

Our future growth depends on penetrating new markets, adapting existing communications products to new applications, and introducing new communications products that achieve market acceptance. Accordingly, we are actively applying our communications expertise to design and develop new hardware and software products and enhance existing products. We spent $15.8 million in 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

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

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

The Financial Accounting Standards Board (FASB) issued a revised standard that 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

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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.

***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.

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

As of May 26, 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 under Item 1. Business, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this annual report are forward-looking statements. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this annual report that are not historical facts. When used in this annual report, the words expects, anticipates, intends, plans, believes, seeks, estimates, could, should, may expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors, including the factors discussed in this Risk Factors section of the annual report, that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements.

**Item 1B.** ***Unresolved Staff Comments***

None.

**Item 2.** ***Properties***

We are headquartered in facilities consisting of approximately 315,000 square feet in Carlsbad, California. 240,000 square feet are currently under a lease expiring in 2017, with 75,000 square feet expiring in April 2007. We expect to occupy an additional 60,000 square feet of leased space in Carlsbad, California, currently under construction, in the next twelve months. Facilities consisting of an aggregate of approximately 146,000 square feet are located in Duluth, Georgia with a ten year lease expiring in 2015 and also approximately 17,000 square feet

warehouse in Atlanta, Georgia with a lease expiring in 2011. We have facilities consisting of approximately 45,000 square feet in Germantown, Maryland with a six year lease expiring in 2011. Facilities consisting of approximately 19,000 square feet are located in Chandler, Arizona under a lease expiring in 2007 and a facility of approximately 34,000 square feet located in Cleveland, Ohio under a lease expiring in 2016. Additionally, we maintain offices or a sales presence in Arlington (Virginia), Linthicum Heights (Maryland), Boston

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(Massachusetts), Australia, China, Canada, India, Italy and Spain. We anticipate operating additional regional sales offices in fiscal year 2007 and beyond.

**Item 3.** ***Legal Proceedings***

We are party to various legal actions arising in the ordinary course of our business and believe that the ultimate outcome of these actions will not have a material adverse effect on our results of operations, liquidity or financial position.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the quarter ended March 31, 2006.

## PART II

**Item 5.** ***Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the Nasdaq National Market under the symbol VSAT. The following table sets forth the range of high and low sales prices on the Nasdaq National Market of our common stock for the periods indicated, as reported by Nasdaq. Such quotations represent inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

| | High | Low |
|---|---|---|
| **Fiscal 2005** | | |
| First Quarter | $ 27.60 | $ 20.63 |
| Second Quarter | 24.96 | 16.79 |
| Third Quarter | 25.00 | 16.83 |
| Fourth Quarter | 24.37 | 17.41 |
| **Fiscal 2006** | | |
| First Quarter | $ 23.20 | $ 17.30 |
| Second Quarter | 25.72 | 20.14 |
| Third Quarter | 28.84 | 23.16 |
| Fourth Quarter | 29.17 | 24.63 |

To date, we have neither declared nor paid any dividends on our common stock. We currently intend to retain all future earnings, if any, for use in the operation and development of our business and, therefore, do not expect to declare or pay any cash dividends on our common stock in the foreseeable future. In addition, our credit facility restricts our ability to pay dividends. As of May 26, 2006 there were 524 holders of record of our common stock. On May 26, 2006, the last sale price reported on the Nasdaq National Market for our common stock was $25.56 per share.

The information required to be disclosed by Item 201(d) of Regulation S-K Securities Authorized for Issuance Under Equity Compensation Plans is included under Item 12 of Part III of this annual report.

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**Item 6.** ***Selected Financial Data***

The following table provides selected financial information for us for each of the fiscal years in the five-year period ended March 31, 2006. The data as of and for each of the fiscal years in the five-year period ended March 31, 2006 have been derived from our audited financial statements and include, in the opinion of our management, all adjustments necessary to state fairly the data for those periods. You should consider the financial statement data provided below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes which are included elsewhere in this annual report. All amounts shown are in thousands, except per share data.

| Years Ended | March 31, 2006 | April 1, 2005 | April 2, 2004 | March 31, 2003 | March 31, 2002 |
|---|---|---|---|---|---|
| **Statement of Income Data:** | | | | | |
| Revenues | $ 433,823 | $ 345,939 | $ 278,579 | $ 185,022 | $ 195,628 |
| Cost of revenues | 325,271 | 262,260 | 206,327 | 142,908 | 139,354 |
| Gross profit | 108,552 | 83,679 | 72,252 | 42,114 | 56,274 |
| Operating expenses: | | | | | |
| Selling, general and administrative | 57,059 | 48,631 | 38,800 | 37,858 | 38,153 |
| Independent research and development | 15,757 | 8,082 | 9,960 | 16,048 | 9,415 |
| Acquired in-process research and development | | | | | 2,550 |
| Amortization of intangible assets | 6,806 | 6,642 | 7,841 | 8,448 | 6,959 |
| Income (loss) from operations | 28,930 | 20,324 | 15,651 | (20,240) | (803) |
| Interest income (expense) | (200) | 304 | (346) | (740) | 188 |
| Other income (loss) | | | | | (90) |
| Income (loss) before income taxes and minority interest | 28,730 | 20,628 | 15,305 | (20,980) | (705) |
| Provision (benefit) for income taxes | 5,105 | 1,246 | 2,015 | (11,395) | (2,918) |
| Minority interest in net earnings of subsidiary, net of tax | 110 | 115 | 122 | 47 | 56 |
| Net income (loss) | $ 23,515 | $ 19,267 | $ 13,168 | $ (9,632) | $ 2,157 |
| Basic net income (loss) per share | $ 0.87 | $ 0.72 | $ 0.50 | $ (0.37) | $ 0.09 |
| Diluted net income (loss) per share | $ 0.81 | $ 0.68 | $ 0.48 | $ (0.37) | $ 0.09 |
| Shares used in computing basic net income (loss) per share | 27,133 | 26,749 | 26,257 | 26,016 | 23,072 |
| Shares used in computing diluted net income (loss) per share | 28,857 | 28,147 | 27,558 | 26,016 | 23,954 |

| | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet Data:** | | | | | |
| Cash, cash equivalents and short-term investments | $ 36,887 | $ 14,741 | $ 18,670 | $ 4,269 | $ 6,620 |
| Working capital | 152,907 | 138,859 | 107,846 | 74,276 | 83,458 |
| Total assets | 365,069 | 301,825 | 272,682 | 237,155 | 238,667 |
| Capital lease obligation, less current portion | | | | 141 | 174 |
| Total stockholders equity | 263,298 | 226,283 | 202,475 | 183,887 | 191,939 |

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## Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

### General

We are a leading provider of advanced digital satellite communications and other wireless and secure networking and signal processing equipment and services to the government and commercial markets. Based on our history and extensive experience in complex defense communications systems, 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 of the broadband communications market for both government and commercial customers.

Our internal growth to date has historically been driven largely by our success in meeting the need for advanced communications products for our 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 principally serving defense customers and includes:

Tactical data links, including MIDS,

Information security and assurance products and services, which enable military and government users to communicate secure information over secure and non-secure networks, and

Government satellite communication systems and products, including UHF DAMA satellite communications products consisting of modems, terminals and network control systems, and innovative broadband solutions to government customers to increase available bandwidth using existing satellite capacity.

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 (SA) 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 53% of our revenues in fiscal year 2006, 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 five key broadband markets: enterprise, consumer, in-flight, maritime and ground mobile applications.

The commercial segment comprises two business product groups: satellite networks and antenna systems. 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 based on DOCSIS 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,

Satellite networking systems design and technology development,

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

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Digital integrated circuits, modem products, and development engineering, and

Antenna systems for commercial and defense applications and customers.

With expertise in commercial satellite network engineering, gateway construction, and remote terminal manufacturing for all types of interactive communications services, 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.

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

Our products are provided primarily through three types of contracts: fixed-price, time-and-materials and cost-reimbursement contracts. Historically, approximately 88% for fiscal year 2006 and 2005, and 89% for fiscal year 2004, of our revenues were derived from fixed-price contracts, which require us to provide products and services under a contract at a stipulated price. The remainder of our annual revenue was derived from cost-reimbursement contracts, under which we are reimbursed for all actual costs incurred in performing the contract to the extent such costs are within the contract ceiling and allowable under the terms of the contract, plus a fee or profit, and from time-and-materials contracts which reimburse us for the number of labor hours expended at an established hourly rate negotiated in the contract, plus the cost of materials utilized in providing such products or services.

Historically, a significant portion of our revenues are from contracts for the research and development of products. The research and development efforts are conducted in direct response to the specific requirements of a customer s engineering and production order and, accordingly, expenditures related to such efforts are included in cost of sales when incurred and the related funding (which includes a profit component) is included in revenues. Revenues for our funded research and development were approximately $109.5 million or 25% of our total revenues during fiscal year 2006, $105.7 million or 31% of our total revenues during fiscal year 2005, and $81.0 million or 29% of our total revenues during fiscal year 2004.

We also incur independent research and development expenses, which are not directly funded by a third party. Independent research and development expenses consist primarily of salaries and other personnel-related expenses, supplies, prototype materials, testing and certification related to research and development programs. Independent research and development expenses were approximately 4% of revenues during fiscal year 2006, 2% of revenues during fiscal year 2005 and 4% of revenues during fiscal year 2004. As a government contractor, we are able to recover a portion of our independent research and development expenses pursuant to our government contracts.

**Executive Summary**

We develop and manufacture satellite ground systems and other related government and commercial digital communications equipment. Our products are generally highly complex and have a concept-to-market timeline of several months to several years. The development of products where customers expect state-of-the-art results requires an exceptionally talented and dedicated engineering workforce. Since inception, we have been able to attract, develop and retain engineers who support our business and customer objectives, while experiencing low turnover (relative to our competitors or peers). The consistency and depth of our engineering workforce has enabled us to develop leading edge products and solutions for our customers.

Our awards have grown from $191.9 million in fiscal year 2002 to $259.2 million in fiscal year 2003, to $346.6 million in fiscal year 2004, to $426.2 million in fiscal year 2005 and to $443.7 million in fiscal year 2006. The awards growth each of the past six years and the conversion of certain of the awards has contributed to our revenue growth.

There are a number of large new business opportunities we are pursuing in fiscal year 2007. In the government segment, the opportunities include the MIDS LVT Lot VII production order, international MIDS LVT orders, new MIDS joint tactical radio system contracts, additional funding for current information assurance projects, new information assurance contracts using our HAIPIS technology, and orders for our KG-250 and KG-255 products. In

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our commercial segment, the opportunities include new production orders for consumer and mobile broadband systems, new consumer broadband development systems, further penetration in the North American market with enterprise VSAT customers and antenna systems. The timing of these orders is not entirely predictable, so our revenue may vary somewhat from quarter-to-quarter or even year-to-year.

For the current year, our income from operations, excluding the income statement line Amortization of intangible assets and compensation expense from accelerated vesting of certain employee stock options 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: (1) the need to increase our new contracts awards; (2) the need to expand our product portfolio; (3) the high level of customer funded research and development; and (4) our operating performance, we have slowly improved this percentage over the last few fiscal years. We expect improvement in our profit percentage over the next two years.

Generating positive cash flows from operating activities was a financial priority for us in fiscal years 2006 and 2005 and will continue to be a focus in fiscal year 2007. Key areas which we monitor to achieve the cash flow objective include: generating income from operations, reducing our unbilled accounts receivable by monitoring program performance to ensure performance milestones are achieved, reducing the cycle time for amounts billed to customers and their related collection, and reducing inventory on hand.

We expect that our capital needs for fiscal year 2007 will be ten-to-twenty percent less than fiscal year 2006. In fiscal year 2006, we initiated and completed facility expansion and modernization projects in Carlsbad, California, Duluth, Georgia, and Germantown, Maryland, as well as expanded our production test equipment and lab development equipment to meet customer program requirements and growth forecasts. In fiscal year 2007, we have additional facility projects planned in Carlsbad, California, and Phoenix, Arizona, as well as production test equipment and information technology projects to support our growth needs. 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.

Included in fiscal year 2006 operating cash flow is $4.8 million we received as a result of a settlement with Xetron Corporation. Operating income for fiscal year 2006 includes a benefit to cost of revenues of $2.7 million related to this settlement.

Included in fiscal year 2004 operating cash flow is $9.0 million received from Scientific-Atlanta and $406,000 in proceeds from the bankruptcy liquidation proceedings of ORBCOMM. Operating income for fiscal year 2004 includes a benefit to cost of revenues of $3.2 million and a benefit to selling, general and administrative expenses of $3.1 million as a result of Scientific-Atlanta proceeds and a benefit to selling, general and administrative expenses of $406,000 from the bankruptcy liquidation proceedings of ORBCOMM (see Liquidity section of our MD&A for more detail).

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 eighteen (18) month anniversary of the closing date based on ECC meeting certain financial performance targets. On May 23, 2006, the Company agreed to pay the maximum earn-out amount to the former ECC stockholders in the amount of $9.0 million.

The $9.0 million will be paid in cash or stock, at the Company s option, in May 2007. Additional purchase price consideration of $9.0 million will be recorded as additional Satellite Networks goodwill in first quarter of fiscal year 2007.

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

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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 complementary to ViaSat because we will benefit from their complimentary technologies, namely DVB-S2 and ASIC design capabilities, customers and highly skilled workforce. The potential opportunities these benefits provide to our 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 even the best estimates routinely require adjustment.

***Revenue recognition***

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

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. In the fiscal years ended March 31, 2006 and April 1, 2005, we recorded losses of approximately $5.1 million and $5.7 million, respectively, related to loss contracts. There were no significant charges for loss contracts in the fiscal year ended April 2, 2004.

Assuming the initial estimates of sales and costs under a contract are accurate, the percentage-of-completion method results in the profit margin being recorded evenly as revenue is recognized under the contract. Changes in these underlying estimates due to revisions in sales and future cost estimates or the exercise of contract options may result

in profit margins being recognized unevenly over a contract as such changes are accounted for on a cumulative basis in the period estimates are revised.

The Company believes it has established appropriate systems and processes to enable it to reasonably estimate future cost on its programs through regular quarterly evaluations of contract costs, scheduling and technical matters by business unit personnel and management. Historically, in the aggregate, the Company has not experienced

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significant deviations in actual costs from estimated program costs, and when deviations that result in significant adjustments arise, we disclose the related impact in Management s Discussion and Analysis. However, a significant change in future cost estimates on one or more programs could have a material effect on the Company s results of operations. For example, a one percent variance in our future cost estimates on open fixed-price contracts as of March 31, 2006 would change our pre-tax income by approximately $1.4 million.

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

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

***Capitalized software development costs***

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

We did not capitalize any costs related to software developed for resale in the fiscal years ended March 31, 2006, April 1, 2005 or April 2, 2004. Amortization expense of software development costs was $3.4 million for fiscal year 2006 and fiscal year 2005 and $2.8 million for fiscal year 2004. These software development costs are included in 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 receivable balance was $144.7 million, net of allowance for doubtful accounts of $265,000, as of March 31,

2006 and our accounts receivable balance was $141.3 million, net of allowance for doubtful accounts of $163,000, as of April 1, 2005.

***Warranty accrual***

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

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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.

***Impairment of goodwill***

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

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

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

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived, 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. The Company maintained a valuation allowance of $303,000 and $769,000 against deferred tax assets at March 31, 2006 and April 1, 2005, respectively, relating to research and development credit carryforwards available to reduce state income taxes.

***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. The fair value of our foreign currency forward

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contracts was a liability of $183,000 at March 31, 2006 and we had $4.1 million of notional value of foreign currency forward contracts outstanding at March 31, 2006. The fair value of our foreign currency forward contracts was a liability of $54,000 at April 1, 2005 and we had $2.7 million of notional value of foreign currency forward contracts outstanding at April 1, 2005. We had no foreign currency forward or option contracts outstanding at April 2, 2004.

***Stock based compensation***

We measure compensation expense for our stock-based employee compensation plans using the intrinsic value method and provides pro forma disclosures of net income as if the fair value-based method had been applied in measuring compensation expense.

At March 31, 2006, we had stock-based compensation plans described in Note 5 to the Consolidated Financial Statements. We account for options issued to employees and non-employee directors 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. Also, no stock-based compensation cost is reflected in net income in connection with our Employee Stock Purchase Plan as the purchase price of the stock is not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period.

In fiscal year 2006, the Company recorded total stock compensation expense of $1.6 million of which $95,000 related to stock options issued at acquisition of ECC and $1.5 million was recorded upon the acceleration of vesting of certain employee stock options. Stock compensation expense presented in the consolidated statement of operations was recorded as follows: $796,000 to cost of revenue, $686,000 to selling, general and administrative expense and $74,000 to independent research and development. In fiscal year 2005 and 2004, the Company recorded $0 and $35,000 in compensation expense, respectively.

On December 1, 2005, as a part of the acquisition of all of the outstanding capital stock of ECC, the Company issued 23,424 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, the Company recorded $291,000 in deferred stock-based compensation which is being amortized to compensation expense over the remaining service period. The Company amortized $95,000 to compensation expense related to this deferred stock-based compensation through March 31, 2006.

In accordance with SFAS No. 123, Accounting for Stock Based Compensation (SFAS 123) and SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure (SFAS 148), we disclose our net income or loss and net income or loss per share on a pro-forma basis as if we had applied the fair value-based method in measuring compensation expense for our share-based incentive programs.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which the Company is required to adopt effective with our first quarter of fiscal 2007. Effective April 1, 2006, we adopted the fair value recognition provision of SFAS 123(R), using the modified prospective transition method. Under that transition method, compensation expense that we recognize beginning on that date will include: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, April 1, 2006, based on the grant date fair value estimated in accordance with original provision of SFAS 123, and (b) compensation expense for all share-based payments granted on or after April 1, 2006, based on grant date fair value estimated in accordance with the provision of SFAS 123(R). Results for prior periods will not be restated.

We estimate the fair value of options granted using the Black-Scholes option valuation model and the assumptions shown in Note 1 to the consolidated financial statements. We estimate the expected term of options granted on the history of grants and exercises in our option database. We estimate the volatility of our common stock at the date of grant based on historical volatility, consistent with SFAS 123 and SEC Staff Accounting Bulletin No. 107. We base the risk-free interest rate that we use in the Black-Scholes option valuation model on a quarterly average of implied yields in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms. We have never paid any cash dividends on our common stock and we do not anticipate

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paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model. We amortize the fair value ratably over the vesting period of the awards, which is typically three or five years. We may elect to use different assumptions under Black-Scholes option valuation model in the future or select a different option valuation model altogether, which could materially affect our net income or loss and net income or loss per share in the future.

***Option Acceleration***

On March 30, 2006, the Board of Directors of the Company accelerated the vesting of certain unvested employee stock options previously awarded to the Company s employees under the Company s Second Amended and Restated 1996 Equity Participation Plan. Stock options held by the Company s non-employee directors were not accelerated. Options to purchase approximately 1.5 million shares of common stock (representing approximately 26% of the Company s total current outstanding options) were subject to this acceleration. All of the accelerated options were in-the-money and had exercise prices ranging from $4.70 to $26.94. All other terms and conditions applicable to such options, including the exercise prices, remain unchanged. Because the exercise price of all options subject to acceleration was lower than the fair market value of our underlying common stock on the date of acceleration, we recorded $1.5 million in compensation expense.

The accelerated stock options are subject to lock-up restrictions preventing the sale of any shares acquired through the exercise of an accelerated stock option prior to the date on which the exercise would have been permitted under the stock option s original vesting terms.

The decision to accelerate vesting of these options was made primarily to eliminate the recognition of the related compensation expense in the Company s future consolidated financial statements with respect to these unvested stock options upon adopting SFAS 123(R). The Company recognized a pre-tax charge for estimated compensation expense of approximately $1.5 million in fiscal fourth quarter ended March 31, 2006 after considering expected employee turnover rates to reflect, absent the acceleration, the in-the-money value of accelerated stock options the Company estimates would have been forfeited (unvested) pursuant to their original terms. The Company will adjust this estimated compensation expense in future periods to record the impact of actual employee turnover on the compensation expense recognized at the time of acceleration.

At March 31, 2006, there was $1.4 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. We expect to recognize that cost over a weighted average period of four years.

**Results of Operations**

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

| Years Ended | March 31, 2006 | April 1, 2005 | April 2, 2004 |
|---|---|---|---|
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 75.0 | 75.8 | 74.1 |
| Gross profit | 25.0 | 24.2 | 25.9 |
| Operating expenses: | | | |
| Selling, general and administrative | 13.1 | 14.1 | 13.9 |

| | | | |
|---|---|---|---|
| Independent research and development | 3.6 | 2.3 | 3.6 |
| Amortization of intangible assets | 1.6 | 1.9 | 2.8 |
| Income from operations | 6.7 | 5.9 | 5.6 |
| Income before income taxes | 6.6 | 6.0 | 5.4 |
| Provision for income taxes | 1.2 | 0.4 | 0.7 |
| Net income | 5.4 | 5.6 | 4.7 |

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**Fiscal Year 2006 Compared to Fiscal Year 2005**

*Revenues.*

| | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Revenues | $ 433.8 | $ 345.9 | $ 87.9 | 25.4% |

The increase in revenues was due to the higher customer awards received in the past two fiscal years consisting of $443.7 million in fiscal year 2006 and $426.2 million in fiscal year 2005 and the conversion of certain of those awards into revenues. Increased revenues were experienced in both our government and commercial segments. Growth was primarily derived from our tactical data link products, principally MIDS production sales and MIDS JTRS development program of approximately $28.8 million, government satellite communication systems products increasing approximately $6.1 million, consumer broadband sales of approximately $34.0 million and certain mobile broadband product sales of approximately $7.5 million as well as the acquisition of ECC in our fiscal third quarter contributing approximately $4.4 million to annual sales.

*Gross Profit.*

| | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Gross profit | $ 108.6 | $ 83.7 | $ 24.9 | 29.7% |
| Percentage of revenues | 25.0% | 24.2% | | |

The increase in gross profit was primarily due to the margin dollars generated from higher revenues and improved program performance in the government segment over fiscal year 2005, in particular improved profitability of MIDS programs and lower product sustaining costs. The increase in gross profit also includes a benefit related to a legal settlement with Xetron Corporation in the first quarter of fiscal year 2006, which resulted in a net benefit to cost of revenues of $2.7 million. These increases were partially offset by gross profit reductions from higher than planned development costs in a radio frequency micro-positioning technology of $2.5 million and lower VSAT product margins. In addition, gross profit was reduced by compensation expense charge of approximately $701,000 related to the accelerated vesting of certain employee stock options.

*Selling, General and Administrative Expenses.*

| | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Selling, General and Administrative | $ | 57.1 | $ | 48.6 | $ | 8.4 | 17.3% |
| Percentage of revenues | | 13.1% | | 14.1% | | | |

The increase in selling, general and administrative (SG&A) expenses year over year is primarily attributable to an increase in selling costs from higher new contract awards and increased revenues, a compensation expense charge of approximately $686,000 related to the accelerated vesting of certain employee stock options and higher facility costs of approximately $1.4 million related to relocation of our Atlanta and Maryland facilities, offset by various other net decreases. The reduction in percentage is due to the lower support costs required to operate the company as it grows.

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.

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*Independent Research and Development.*

| | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Independent Research and Development | $ 15.8 | $ 8.1 | $ 7.7 | 95.0% |
| Percentage of revenues | 3.6% | 2.3% | | |

The increase in independent research and development (IR&D) expenses reflects year over year increases in the government segment of $3.9 million and the commercial segment of $3.8 million. The higher IR&D expenses are principally for the development of new information assurance, military satellite communication and next generation VSAT equipment, and reflects 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 expected amortization expense of long-lived intangible assets for the next five fiscal years is as follows:

| | Amortization (In thousands) |
|---|---|
| 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 |
| Expected for fiscal year 2011 | 1,364 |
| Thereafter | 3,333 |
| | $ 23,983 |

*Interest Expense.* Interest expense increased to $448,000 for fiscal year 2006 from $141,000 for fiscal year 2005. The increase resulted from higher commitment fees as a result of increased line of credit availability and additional interest expense related to amendment of certain prior year tax returns compared to prior year. At March 31, 2006 and April 1, 2005, there were no outstanding borrowings under our line of credit.

*Interest Income.* Interest income decreased to $248,000 for fiscal year 2006 from $445,000 for fiscal year 2005. This decrease resulted from revisions of international income tax returns in fiscal year 2005.

*Provision (Benefit) for Income Taxes.* Our effective tax rate was 17.8% in fiscal year 2006 compared to 6.0% in fiscal year 2005. Our effective tax rate of 17.8% for fiscal year 2006 reflects the expiration of the federal research and development tax credit at December 31, 2005. Our effective rate differs from the statutory federal rate primarily due to research and development credits and state income taxes.

**Our Segment Results Fiscal Year 2006 Compared to Fiscal Year 2005**

***Government Segment***

*Revenues.*

| | Years Ended | | Dollar | Percentage |
|---|---|---|---|---|
| | March 31, 2006 | April 1, 2005 | Increase | Increase |
| | (In millions, except percentages) | | | |
| Revenues | $ 210.6 | $ 175.4 | $ 35.2 | 20.1% |

The increase in government segment revenues related primarily to a higher beginning backlog and the receipt of $199.6 million in awards during fiscal year 2006. The increased sales were principally from higher year over year tactical data link products sales, principally MIDS production sales and MIDS JTRS development program sales of

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approximately $28.8 million and government satellite communication systems products sales increasing approximately $6.1 million.

*Segment Operating Profit.*

| | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Segment operating profit | $ 41.9 | $ 28.1 | $ 13.8 | 49.4% |
| Percentage of segment revenues | 19.9% | 16.0% | | |

The increase in government segment operating profit dollars was primarily related to the increased revenue year over year and improved program performance in the government segment over fiscal year 2005, in particular improved profitability of MIDS programs and lower product sustaining costs, partially offset by higher SG&A expenses of $5.9 million and IR&D expenses of $3.9 million.

***Commercial Segment***

*Revenues.*

| Satellite Networks | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Revenues | $ 182.3 | $ 138.0 | $ 44.3 | 32.1% |
| **Antenna Systems** | | | | |
| Revenues | $ 47.2 | $ 39.4 | $ 7.8 | 19.7% |
| **Total Commercial Segment** | | | | |
| Revenues | $ 229.5 | $ 177.4 | $ 52.1 | 29.4% |

The increase in commercial segment revenues reflects higher sales of satellite networking systems, principally consumer broadband sales of approximately $34.0 million and mobile broadband sales of approximately $7.5 million as well as the acquisition of ECC in our fiscal third quarter contributing approximately $4.4 million to annual sales. The higher sales of satellite networking equipment revenue reflects higher customer awards stemming from greater market acceptance of our products, the conversion of those awards to revenue, more favorable market conditions in the commercial telecommunications market for our products and further development of our in-flight and consumer satellite broadband internet systems. The increase in antenna systems revenues primarily related to the conversion of prior year backlog to sales.

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*Segment Operating Profit.*

| Satellite Networks | Years Ended March 31, 2006 | Years Ended April 1, 2005 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Satellite Networks operating profit | $ (6.8) | $ (1.7) | $ (5.1) | (289.6)% |
| Percentage of Satellite Network revenues | (3.7)% | (1.2)% | | |
| **Antenna Systems** | | | | |
| Antenna Systems operating profit | $ 3.9 | $ 3.6 | $ 0.2 | 6.8% |
| Percentage of Antenna Systems revenues | 8.2% | 9.1% | | |
| **Total Commercial Segment** | | | | |
| Segment operating profit | $ (2.9) | $ 1.9 | $ (4.8) | (254.6)% |
| Percentage of segment revenues | (1.3)% | 1.1% | | |

The decrease in commercial segment operating profit dollars and percentage reflects an increase in antenna systems operating profit from improved program performance, offset by higher operating costs in satellite networks, principally higher than planned investments in a radio frequency micro-positioning technology of $2.5 million, higher IR&D investments of $3.8 million and lower VSAT product margins, offset by improved consumer broadband performance.

**Fiscal Year 2005 Compared to Fiscal Year 2004**

*Revenues.*

| | Years Ended April 1, 2005 | Years Ended April 2, 2004 | Dollar Increase | Percentage Increase |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Revenues | $ 345.9 | $ 278.6 | $ 67.3 | 24.2% |

The increase in revenues was due to the higher customer awards received in the past two fiscal years consisting of $426.2 million in fiscal year 2005 and $346.6 million in fiscal year 2004 and the conversion of certain of those awards into revenues.

*Gross Profit.*

| | Years Ended | Dollar Increase | Percentage Increase |
|---|---|---|---|

| | April 1, 2005 | April 2, 2004 | | |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Gross profit | $ 83.7 | $ 72.3 | $ 11.4 | 15.8% |
| Percentage of revenues | 24.2% | 25.9% | | |

The increase in gross profit was primarily due to the margin dollars generated from higher revenues and improved program performance in the government segment over fiscal year 2004. These increases were partially offset by gross profit reductions from higher than planned development and start-up costs of our DOCSIS-based consumer satellite broadband system. Our fiscal year 2004 gross profit includes a $3.2 million benefit from the Scientific-Atlanta Settlement. See Liquidity and Capital Resources for a more detailed explanation of the Scientific-Atlanta Settlement.

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*Selling, General and Administrative Expenses.*

| | Years Ended | | Dollar | Percentage |
|---|---|---|---|---|
| | April 1, 2005 | April 2, 2004 | Increase | Increase |
| | (In millions, except percentages) | | | |
| Selling, General and Administrative | $ 48.6 | $ 38.8 | $ 9.8 | 25.3% |
| Percentage of revenues | 14.1% | 13.9% | | |

The increase in SG&A expenses year over year is primarily attributable to the increase in selling costs related to higher new contract awards and increased revenues, costs related to Sarbanes-Oxley implementation of $1.1 million, and higher year over year legal costs of approximately $0.8 million.

Included in SG&A expenses for fiscal year 2004, is a benefit of $3.1 million from the SA Settlement and a benefit of $406,000 related to bad debt recoveries from the bankruptcy liquidation of ORBCOMM. Absence these benefits, SG&A expenses in fiscal year 2004 would have been $42.3 million (15.2% of revenues). Therefore, SG&A expenses, as a percentage of revenues, declined 1.1% in fiscal year 2005 over 2004. The reduction in percentage is due to the lower support costs required to operate the company as it grows.

*Independent Research and Development.*

| | Years Ended | | Dollar | Percentage |
|---|---|---|---|---|
| | April 1, 2005 | April 2, 2004 | (Decrease) | (Decrease) |
| | (In millions, except percentages) | | | |
| Independent Research and Development | $ 8.1 | $ 10.0 | $ (1.9) | (19.0)% |
| Percentage of revenues | 2.3% | 3.6% | | |

IR&D expenses have declined in each of the past two years compared to the prior year. The decrease in IR&D expenses reflects the reduced efforts for company funded development projects due to the increase of orders over the past 30 months, where customer funded development was part of the contract, and the completion of the KG-250 development during in fiscal year 2005 versus a full year in fiscal year 2004.

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

*Interest Expense.* Interest expense decreased to $141,000 for fiscal year 2005 from $357,000 for fiscal year 2004. The decrease resulted from lower outstanding borrowings coupled with lower loan fees in fiscal year 2005. At April 1, 2005 and April 2, 2004, there were no outstanding borrowings under our line of credit.

*Interest Income.* Interest income increased to $445,000 for fiscal year 2005 from $11,000 for fiscal year 2004. This increase resulted from interest accrued on income taxes due from amending previous years tax returns.

*Provision for Income Taxes.* Our effective income tax rate was 6.0% in fiscal year 2005 compared to 13.2% in fiscal year 2004. In fiscal year 2005 we increased our export sales tax benefit by $1.4 million over fiscal year 2004 and increased research tax credits in fiscal year 2005 by $1.4 million over fiscal year 2004.

**Our Segment Results Fiscal Year 2005 Compared to Fiscal Year 2004**

***Government Segment***

*Revenues.*

| | Years Ended | | Dollar | Percentage |
|---|---|---|---|---|
| | April 1, 2005 | April 2, 2004 | Increase | Increase |
| | (In millions, except percentages) | | | |
| Revenues | $ 175.4 | $ 128.4 | $ 47.0 | 36.6% |

The increase in government segment revenues related primarily to the $227.1 million in awards received during fiscal year 2005. The increased sales were principally from higher year over year tactical data link sales of

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$33.7 million and sales of KG-250 products of $12.6 million, which was a new product introduced in fiscal year 2005.

*Segment Operating Profit.*

| | Years Ended | | Dollar | Percentage |
|---|---|---|---|---|
| | April 1, 2005 | April 2, 2004 | Increase | Increase |
| | (In millions, except percentages) | | | |
| Segment operating profit | $ 28.1 | $ 15.2 | $ 12.9 | 84.9% |
| Percentage of segment revenues | 16.0% | 11.8% | | |

The increase in government segment operating profit dollars was primarily related to the increased revenue year over year from tactical data link sales of $15.6 million offset by contract development overrun charges on information assurance and MILSATCOM programs of $5.7 million. Segment operating profit percentage also increased due to improved margins of tactical data links products.

***Commercial Segment***

*Revenues.*

| Satellite Networks | Years Ended April 1, 2005 | Years Ended April 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Revenues | $ 138.0 | $ 111.5 | $ 26.5 | 23.8% |
| **Antenna Systems** | | | | |
| Revenues | $ 39.4 | $ 42.6 | $ (3.2) | (7.5)% |
| **Total Commercial Segment** | | | | |
| Revenues | $ 177.4 | $ 154.2 | $ 23.2 | 15.0% |

The increase in commercial segment revenues reflects higher sales of satellite networking systems, principally consumer broadband and enterprise VSAT equipment, offset by partially lower sales of antenna systems. The higher sales of satellite networking equipment revenue reflects higher customer awards stemming from greater market acceptance of our products and the conversion of those awards to revenue. The reduction in antenna systems revenues are related to lower year over year new contract awards.

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*Segment Operating Profit.*

| Satellite Networks | Years Ended April 1, 2005 | Years Ended April 2, 2004 | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | (In millions, except percentages) | | | |
| Satellite Networks operating profit | $ (1.7) | $ 7.3 | $ (9.0) | (123)% |
| Percentage of Satellite Network revenues | (1.2)% | 6.5% | | |
| **Antenna Systems** | | | | |
| Antenna Systems operating profit | $ 3.6 | $ 2.1 | $ 1.5 | 71.4% |
| Percentage of Antenna Systems revenues | 9.1% | 4.9% | | |
| **Total Commercial Segment** | | | | |
| Segment operating profit | $ 1.9 | $ 9.4 | $ (7.5) | (79.8)% |
| Percentage of segment revenues | 1.1% | 6.1% | | |

The decrease in commercial segment operating profit dollars and percentage reflects an increase in antenna systems operating profit from improved program performance offset by higher operating costs in satellite networks, principally higher development and start-up costs related to our DOCSIS-based consumer satellite broadband system. Fiscal year 2004 satellite networks operating profit includes a $6.3 million benefit related to the Scientific-Atlanta settlement and $406,000 in proceeds from the bankruptcy liquidation of ORBCOMM. Absent these benefits, satellite networks operating profit would have been $0.6 million.

**Backlog**

As reflected in the table below, funded and firm (funded plus unfunded) backlog increased during fiscal year 2006 with the increases in firm backlog coming from our commercial segment. New contract awards in the current year increased backlog to a new all-time high for us.

| | March 31, 2006 | April 1, 2005 |
|---|---|---|
| | (In millions) | |
| **Firm backlog** | | |
| Government segment | $ 183.7 | $ 194.6 |
| Commercial segment | 191.2 | 167.3 |
| Total | $ 374.9 | $ 361.9 |
| **Funded backlog** | | |
| Government segment | $ 132.9 | $ 109.4 |
| Commercial segment | 190.7 | 163.9 |

| | | | | |
|---|---|---|---|---|
| Total | $ | 323.6 | $ | 273.3 |
| Contract options | $ | 13.8 | $ | 23.0 |

The firm backlog does not include contract options. Of the $374.9 million in firm backlog, approximately $256.4 million is expected to be delivered in fiscal year 2007, and the balance is expected to be delivered in fiscal year 2008 and thereafter. We include in our backlog only those orders for which we have accepted purchase orders. Over the last year, as more of our products have been placed into market, we have seen a greater percentage of awards from book and ship-type orders. This has resulted in backlog not growing as fast as the past three fiscal years.

Total new awards for both commercial and defense products were $443.7 million for fiscal year 2006 compared to $426.2 million for fiscal year 2005.

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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, purchase orders may present product specifications that would require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related purchase order.

The backlog amounts as presented are comprised of funded and unfunded components. Funded backlog represents the sum of contract amounts for which funds have been specifically obligated by customers to contracts. Unfunded backlog represents future amounts that customers may obligate over the specified contract performance periods. Our customers allocate funds for expenditures on long-term contracts on a periodic basis. Our ability to realize revenues from contracts in backlog is dependent upon adequate funding for such contracts. Although we do not control the funding of our contracts, our experience indicates that actual contract fundings have ultimately been approximately equal to the aggregate amounts of the contracts.

**Liquidity and Capital Resources**

We have financed our operations to date primarily with cash flows from operations, bank line of credit financing 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, and timing of payments) 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 in fiscal year 2006 was $52.2 million as compared to cash provided by operating activities in fiscal year 2005 of $3.6 million. The increase in cash provided by operating activities in 2006 compared to 2005 primarily related to a higher year over year net income of $4.2 million, approximately $28.4 million increased conversion of receivables to cash and an increase in current liabilities of approximately $15.9 million. The increase in current liabilities primarily relates to a $3.1 million increase in deferred rent, $1.4 million increase in collections in excess of revenues, and $11.4 million increase in other liabilities due to growth in operations. The increase in cash provided by operating activities was partially offset by an increase in investments in inventories of $6.6 million. The increase in inventory was primarily related a greater percentage of book and ship type orders, which required more on-hand inventory, and a shift in manufacturing production in the fourth quarter of fiscal year 2006 to an off-shore contract manufacturer and the related in-transit inventory.

Cash used in investing activities in fiscal year 2006 was $39.7 million as compared to cash used in investing activities in 2005 of $11.3 million. We spent $16.0 million for the acquisition of ECC and $23.7 million for capital, principally for facility expansion and production test equipment to support our growth in fiscal year 2006 compared to acquiring $11.3 million in equipment in fiscal year 2005.

Cash provided by financing activities for fiscal year 2006 was $9.9 million as compared to cash provided by financing activities for fiscal year 2005 of $3.7 million. This increase for fiscal year 2006 was primarily the result of cash

received from the exercise of employee stock options.

At March 31, 2006, we had $36.9 million in cash, cash equivalents and short-term investments, $152.9 million in working capital and no outstanding borrowings under our line of credit. We had $5.2 million outstanding under standby letters of credit, principally related to contract performance leaving borrowing availability under our line of credit of $54.8 million. At April 1, 2005, we had $14.7 million in cash, cash equivalents and short-term investments, $138.9 million in working capital and no outstanding borrowings under our line of credit.

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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 March 31, 2006.

Included in fiscal year 2006 operating cash flow is $4.8 million we received as a result of a settlement with Xetron Corporation. Operating income for fiscal year 2006 includes a benefit to cost of revenues of $2.7 million related to this settlement.

On October 23, 2002, we sent Scientific-Atlanta a claim for indemnification under the terms of the asset purchase agreement related to the acquisition of Scientific-Atlanta s satellite networks business (Satellite Networks Business) in April 2000. On November 14, 2002, Scientific-Atlanta filed a complaint (United States District Court, Northern District of Georgia, Atlanta Division) for declaratory judgment seeking to resolve our claim for indemnification through litigation. In response to Scientific-Atlanta s complaint, on January 15, 2003, we filed a formal claim against Scientific-Atlanta for, among other things, fraud, breach of warranty, contractual and equitable indemnification, and breach of the duty of good faith and fair dealing. In December 2003, we reached an agreement with Scientific-Atlanta (the Scientific-Atlanta Settlement ). Under the terms of the Scientific-Atlanta Settlement, Scientific-Atlanta paid us $9.0 million in cash and the parties jointly dismissed the litigation concerning the acquisition. Neither party admitted liability in connection with the litigation, or in the agreement resolving it. As a result of the settlement, the Consolidated Statement of Operations for fiscal year 2004 includes benefits to cost of revenues of $3.2 million and to selling, general and administrative expenses of $3.1 million.

In June 2004 we filed a universal shelf registration statement with the SEC 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.

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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:

| | Total | For the Fiscal Years Ending 2007 | 2008-2009 | 2010-2011 | After 2011 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Operating leases | $ 85,665 | $ 8,332 | $ 16,645 | $ 16,919 | $ 43,769 |
| Standby letters of credit | 5,239 | 1,696 | 1,055 | | 2,488 |
| Purchase commitments | 141,794 | 95,705 | 45,729 | 360 | |
| Total | $ 232,698 | $ 105,733 | $ 63,429 | $ 17,279 | $ 46,257 |

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. These agreements help the Company secure pricing and product availability.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements at March 31, 2006, that are reasonably likely to have a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

**Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)) which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. In March 2005, the SEC released Staff Accounting Bulletin No. 107, Share-Based Payment (SAB No. 107) relating to the adoption of SFAS 123(R). Beginning in the first quarter of 2007, we will adopt SFAS 123(R) under the modified prospective transition method using the Black-Scholes pricing model. Under the new standard, our estimate of compensation expense will require a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), future forfeitures and related tax effects. During the first quarter of fiscal 2007, we will begin recording the fair value of our share-based compensation in our financial statements in accordance with SFAS No. 123(R). Although the adoption of SFAS 123(R) will have no adverse impact on our balance sheet and cash flows, it will adversely affect our net profit (loss) and earnings (loss) per share. See Notes 1 and 5 to the Notes to Consolidated Financial Statements.

In October 2005, the FASB issued Financial Statement of Position (FSP) FAS 123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FAS 123(R) (FSP 123(R)-2). FSP 123(R)-2 provides guidance on the application of grant date as defined in SFAS No. 123(R). In accordance with this standard a grant date of an award exists if a) the award is a unilateral grant and b) the key terms and conditions of the award are expected to be

communicated to an individual recipient within a relatively short time period from the date of approval. We will adopt this standard when we adopt SFAS 123(R) beginning in the first quarter of fiscal 2007. Initially, upon adoption, we do not expect SFAS 123(R) will have a material impact on our consolidated financial position, results of operations or cash flows. In the future, the Company may have equity based grants that under SFAS 123(R) may result in material amount of stock based compensation expense.

In November 2005, the FASB issued FSP FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards (FSP 123(R)-3). FSP 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the beginning balance of the accumulated paid-in capital pool related to employee compensation and simplified method to determine the subsequent impact the accumulated

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paid-in capital pool employee awards that are fully vested and outstanding upon the adoption of SFAS No. 123(R). We are currently evaluating this transition method.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154). SFAS 154 is a replacement of Accounting Principles Board Opinion No. 20 and SFAS No. 3. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle. SFAS 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS 154 also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not believe that it will have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), an interpretation of SFAS No. 143, Accounting for Asset Retirement Obligations. FIN 47 states that the term conditional asset retirement obligation refers to an unconditional, legal obligation to perform an asset retirement obligation activity in which the timing and/or method of settlement are uncertain and conditional on a future event. If sufficient information exists for fair value measurement of the obligation, FIN 47 requires the Company to recognize a liability when incurred. The Company adopted FIN 47 in the fourth quarter of fiscal year 2006. The adoption of FIN 47 did not have a material impact on our consolidated results of operation, financial position or cash flows.

In June 2005, the Emerging Issues Task Force reached a consensus on Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements. The consensus requires that the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception should be based on the lesser of the useful life of the leasehold improvements or the period of the lease including all renewal periods that are reasonably assured of exercise at the time of the acquisition. The consensus is to be applied prospectively to leasehold improvements acquired subsequent to June 29, 2005. This consensus is consistent with the accounting policy followed by the Company and thus had no impact upon adoption.

In October 2005, the FASB issued FSP FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period, which addresses the accounting for rental costs associated with operating leases that are incurred during a construction period. This FSP requires that rental costs associated with ground or building operating leases incurred during a construction period be recognized as rental expense and included in income from continuing operations unless the property is being developed to be leased. The guidance in this FSP shall be applied to the first reporting period beginning after December 15, 2005, with early adoption permitted. The adoption of FSP FAS 13-1 will not have a significant impact on the Company s financial statements.

**Item 7A.** ***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 March 31, 2006, there was a foreign currency exchange contract outstanding intended to reduce the foreign currency risk for amounts payable to vendors in Euros. The foreign exchange contract with a notional amount of

$4.1 million, consisting of both a put contract and a call contract, had a fair value of a net liability of $183,000 as of March 31, 2006. The fair value of this foreign currency forward contract as of March 31, 2006, would have changed by $394,000 if the foreign currency exchange rate for the Euro to the U.S. dollar on this forward contract had changed by 10%.

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**Item 8.** ***Financial Statements and Supplementary Data***

Our consolidated financial statements at March 31, 2006 and April 1, 2005 and for each of the three years in the period ended March 31, 2006, and the Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm**,** are included in this annual report on pages F-1 through F-28.

**Summarized Quarterly Data (Unaudited)**

The following financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for the fair statement of the results for the interim periods. Summarized quarterly data for fiscal years 2006 and 2005 are as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| **2006** | | | | |
| Revenues | $ 99,977 | $ 104,112 | $ 111,608 | $ 118,126 |
| Gross profit | 24,256 | 25,958 | 27,923 | 30,415 |
| Income from operations | 6,594 | 7,562 | 7,977 | 6,797 |
| Net income | 5,176 | 5,953 | 6,628 | 5,758 |
| Basic net income per share | 0.19 | 0.22 | 0.24 | 0.21 |
| Diluted net income per share | 0.18 | 0.21 | 0.23 | 0.20 |
| **2005** | | | | |
| Revenues | $ 84,170 | $ 82,643 | $ 88,187 | $ 90,939 |
| Gross profit | 21,394 | 19,835 | 19,715 | 22,735 |
| Income from operations | 5,379 | 5,768 | 4,867 | 4,310 |
| Net income | 3,563 | 3,745 | 5,241 | 6,718 |
| Basic net income per share | 0.13 | 0.14 | 0.20 | 0.25 |
| Diluted net income per share | 0.13 | 0.13 | 0.19 | 0.24 |

**Item 9.** ***Changes in and Disagreements With Accountants On Accounting and Financial Disclosure***

None.

**Item 9A.** ***Controls and Procedures***

**Evaluation of Disclosure 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 SEC s rules and forms.

As required by SEC Rule 13a-15(b), 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 March 31, 2006, the end of the period covered by this annual report. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were

effective at a reasonable assurance level as of March 31, 2006.

**Changes in Internal Control Over Financial Reporting**

During the quarter ended March 31, 2006, 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.

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**Management s Report on Internal Control Over Financial Reporting**

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company s management, including our principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company s management concluded that its internal control over financial reporting was effective as of March 31, 2006.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s independent registered public accounting firm has audited management s assessment of the effectiveness of the Company s internal control over financial reporting as of March 31, 2006 as stated in their report which appears on page F-1.

**Item 9B.** ***Other Information***

None.

## PART III

**Item 10.** ***Directors and Executive Officers of the Registrant***

The information required by this item is incorporated by reference to our definitive Proxy Statement to be filed with the SEC in connection with our 2006 Annual Meeting of Stockholders (the Proxy Statement) under the headings Election of Directors and Executive Officers.

**Item 11.** ***Executive Compensation***

The information required by this item is incorporated by reference to the Proxy Statement under the heading Executive Compensation and Other Information.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated by reference to the Proxy Statement under the heading Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information.

**Item 13.** ***Certain Relationships and Related Transactions***

The information required by this item, to the extent applicable, is incorporated by reference to the Proxy Statement under the heading Certain Relationships and Related Transactions.

**Item 14.** ***Principal Accountants Fees and Services***

The information required by this item is incorporated by reference to the Proxy Statement under the heading Relationship With Independent Accountants.

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## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

(a) Documents filed as part of the report:



All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date | |
| 3.1 | First Amended and Restated Bylaws of ViaSat, Inc. | S-3 | 333-116468 | 3.2 | 06/14/2004 | |
| 3.2 | Second Amended and Restated Certificate of Incorporation of ViaSat, Inc. | 10-Q | 000-21767 | 3.1 | 11/14/2000 | |
| 4.1 | Form of Common Stock Certificate | S-1/A | 333-13183 | 4.1 | 11/05/1996 | |
| 10.1 | Form of Invention and Confidential Disclosure Agreement by and between ViaSat, Inc. and each employee of ViaSat, Inc. | S-1 | 333-13183 | 10.4 | 10/01/1996 | |
| 10.2* | Second Amended and Restated 1996 Equity Participation Plan of ViaSat, Inc. | S-8 | 333-109959 | 10.1 | 10/24/2003 | |
| 10.3* | Form of Incentive Stock Option Agreement under the Second Amended and Restated 1996 Equity Participation Plan | S-1/A | 333-13183 | 10.9 | 11/20/1996 | |
| 10.4* | Form of Nonqualified Stock Option Agreement under the Second Amended | S-1/A | 333-13183 | 10.10 | 11/20/1996 | |

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|---|---|---|---|---|---|
| | and Restated 1996 Equity Participation Plan | | | | |
| 10.5* | ViaSat, Inc. 401(k) Profit Sharing Plan | S-1 | 333-13183 | 10.12 | 10/11/1996 |
| 10.6 | Second Amended and Restated Revolving Loan Agreement dated January 31, 2005 among ViaSat, Inc., Union Bank of California, N.A. and Comerica Bank | 8-K | 000-21767 | 10.1 | 02/01/2005 |
| 10.7 | Lease, dated March 24, 1998, by and between W9/LNP Real Estate Limited Partnership and ViaSat, Inc. (6155 El Camino Real, Carlsbad, California) | 10-K | 000-21767 | 10.27 | 06/29/1998 |

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| Exhibit Number | Exhibit Description | Incorporated by Reference | Filed |
|---|---|---|---|