

VIASAT INC
Form 10-Q
November 07, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2006.

OR

**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
(State or other jurisdiction of
incorporation or organization)**

**33-0174996
(I.R.S. Employer
Identification No.)**

**6155 El Camino Real, Carlsbad, California 92009
(760) 476-2200**

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

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

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

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

The number of shares outstanding of the registrant's Common Stock, \$.0001 par value, as of November 3, 2006 was 28,639,042.

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

	September 29, 2006	March 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,268	\$ 36,723
Short-term investments	165	164
Accounts receivable, net	163,874	144,715
Inventories	45,341	49,883
Deferred income taxes	7,008	7,008
Prepaid expenses and other current assets	11,445	5,960
Total current assets	275,101	244,453
Goodwill	48,855	28,133
Other intangible assets, net	25,872	23,983
Property and equipment, net	49,033	46,211
Other assets	16,826	22,289
Total assets	\$ 415,687	\$ 365,069
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 52,552	\$ 50,577
Accrued liabilities	42,463	40,969
Payable to predecessor shareholders of acquired business	9,000	
Total current liabilities	104,015	91,546
Other liabilities	11,314	9,389
Total liabilities	115,329	100,935
Commitments and contingencies (Note 8)		
Minority interest in consolidated subsidiary	928	836
Stockholders equity:		
Common stock	3	3
Paid in capital	201,738	177,680
Retained earnings	97,703	85,803
Accumulated other comprehensive (loss) income	(14)	(188)

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Total stockholders' equity	299,430	263,298
Total liabilities and stockholders' equity	\$ 415,687	\$ 365,069

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)

	Three months ended		Six months ended	
	September	September	September	September
	29,	30,	29,	30,
	2006	2005	2006	2005
Revenues	\$ 131,501	\$ 104,112	\$ 260,202	\$ 204,089
Operating expenses:				
Cost of revenues	97,444	78,154	195,559	153,875
Selling, general and administrative	16,790	13,327	32,634	26,173
Independent research and development	4,832	3,557	9,624	6,861
Amortization of intangible assets	2,621	1,512	4,681	3,024
Income from operations	9,814	7,562	17,704	14,156
Other income (expense):				
Interest income	423	2	749	4
Interest expense	(200)	(28)	(291)	(179)
Income before income taxes	10,037	7,536	18,162	13,981
Provision for income taxes	3,475	1,629	6,171	2,895
Minority interest in net earnings (loss) of subsidiary, net of tax	23	(46)	91	(43)
Net income	\$ 6,539	\$ 5,953	\$ 11,900	\$ 11,129
Basic net income per share	\$.23	\$.22	\$.42	\$.41
Diluted net income per share	\$.21	\$.21	\$.39	\$.39
Shares used in basic net income per share computation	28,586	26,997	28,189	26,944
Shares used in diluted net income per share computation	30,520	28,634	30,228	28,371

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended	
	September 29, 2006	September 30, 2005
Cash flows from operating activities:		
Net income	\$ 11,900	\$ 11,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,785	5,322
Amortization of intangible assets and capitalized software	6,375	4,685
Deferred income taxes	2,177	(1,405)
Incremental tax benefits from stock options exercised	(550)	
Non-cash stock-based compensation	2,052	
Other non-cash adjustments	291	(66)
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of the effects of the acquisition:		
Accounts receivable, net	(16,741)	(15,934)
Inventories	5,888	577
Other assets	(6,445)	4,337
Accounts payable	(26)	3,907
Accrued liabilities	131	6,222
Other liabilities	1,647	332
Net cash provided by operating activities	13,484	19,106
Cash flows from investing activities:		
Acquisition of a business, net of cash acquired	(281)	
Purchase of short-term investments	(1)	(1)
Purchases of property and equipment	(7,879)	(7,773)
Net cash (used in) investing activities	(8,161)	(7,774)
Cash flows from financing activities:		
Proceeds from line of credit		3,000
Payments on line of credit		(3,000)
Proceeds from issuance of common stock, net of issuance costs	4,594	2,230
Incremental tax benefits from stock options exercised	550	
Net cash provided by financing activities	5,144	2,230
Effect of exchange rate changes on cash	78	(22)
Net increase in cash and cash equivalents	10,545	13,540
Cash and cash equivalents at beginning of period	36,723	14,579

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Cash and cash equivalents at end of period	\$ 47,268	\$ 28,119
Non-cash investing and financing activities:		
Issuance of stock in connection with acquisition (see Note 12)	\$ 16,350	\$
Recording of payable to predecessor shareholders of acquired business (see Note 1)	\$ 9,000	\$

See accompanying notes to condensed consolidated financial statements.

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VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(UNAUDITED)

(In thousands, except share data)

	Common Stock		Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total	Comprehensive Income
	Number of Shares	Amount			(Loss)		
Balance at March 31, 2006	27,594,549	\$ 3	\$ 177,680	\$ 85,803	\$ (188)	\$ 263,298	
Exercise of stock options	239,746		3,498			3,498	
Tax benefit from exercise of stock options			1,062			1,062	
Issuance of stock under Employee Stock Purchase Plan	50,217		1,096			1,096	
Share-based compensation expense			2,052			2,052	
Value of stock issued in connection with acquisition of a business	724,231		16,350			16,350	
Net income				11,900		11,900	\$ 11,900
Hedging transaction, net of tax					184	184	184
Foreign currency translation, net of tax					(10)	(10)	(10)
Comprehensive income							\$ 12,074
Balance at September 29, 2006	28,608,743	\$ 3	\$ 201,738	\$ 97,703	\$ (14)	\$ 299,430	

See accompanying notes to condensed consolidated financial statements.

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

Note 1 Basis of Presentation

The accompanying condensed consolidated balance sheet at September 29, 2006, the condensed consolidated statements of operations for the three and six months ended September 29, 2006 and September 30, 2005, the condensed consolidated statements of cash flows for the six months ended September 29, 2006 and September 30, 2005, and the condensed consolidated statement of stockholders' equity for the six months ended September 29, 2006 have been prepared by the management of ViaSat, Inc. (the Company), and have not been audited. These financial statements have been prepared on the same basis as the audited consolidated financial statements for the year ended March 31, 2006 and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for all periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended March 31, 2006 included in our 2006 Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year. The year-end condensed balance sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America.

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ from those estimates. Significant estimates made by management include revenue recognition, share-based compensation, self-insurance reserves, capitalized software, allowance for doubtful accounts, warranty accrual, valuation of goodwill and other intangible assets, and valuation allowance on deferred tax assets.

Derivatives

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

Deferred Rent

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

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VIASAT, INC.
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(UNAUDITED)

Payable to Predecessor Shareholders of Acquired Business

On May 23, 2006, in relation to the Company's Efficient Channel Coding, Inc. (ECC) acquisition and as additional consideration, the Company agreed to pay the maximum earn-out amount to the former ECC stockholders in the amount of \$9.0 million which has been accrued as of September 29, 2006. The \$9.0 million will be paid in cash or stock, at the Company's option, in May 2007. The additional purchase price consideration of \$9.0 million was recorded as additional goodwill in the Satellite Networks segment in the first quarter of fiscal year 2007.

Assets Held-for-Sale

In January 2006, the Company purchased approximately 10 acres of land adjacent to a leased facility for approximately \$3.1 million. During the first quarter of fiscal year 2007, the Company signed a property listing agreement with the intention to sell the property over the next few months. As of September 29, 2006, we recorded the property in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets, as an asset held-for-sale at the lower of carrying value or fair value, less estimated costs to sell, which is estimated to be \$3.1 million.

Self-Insurance Liabilities

In the first quarter of fiscal 2007, the Company adopted a self-insurance plan to retain a portion of the exposure for losses related to employee medical benefits. The Company also has a self-insurance plan for a portion of the exposure for losses related to workers' compensation costs. The self-insured policies provide for both specific and aggregate stop-loss limits. We utilize internal actuarial methods, as well as an independent third-party actuary for the purpose of estimating ultimate costs for a particular policy year. Based on these actuarial methods along with currently available information and insurance industry statistics, the Company recorded self-insurance liabilities as of September 29, 2006 and March 31, 2006 of \$735,000 and \$75,000, respectively. Our estimate which is subject to inherent variability, based on average claims experience in our industry and our own experience in terms of frequency and severity of claims, including asserted and unasserted claims incurred but not reported, with no explicit provision for adverse fluctuation from year to year. This variability may lead to ultimate payments being either greater or less than the amounts presented above. Self-insurance liabilities have been classified as current in accordance with the estimated timing of the projected payments.

Share-Based Payments

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

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

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation

pursuant to FAS 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R.

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VIASAT, INC.
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Share-Based Compensation Information under FAS 123R. Upon adoption of FAS 123R, the Company continued to use the same method of valuation for stock options granted beginning in fiscal 2007, the Black-Scholes option-pricing model (Black-Scholes model) which was previously used for the Company's pro forma information required under FAS 123. The Company's employee stock options have simple vesting schedules typically ranging from three to five years. Therefore, the Company did not see significant benefits in using a binomial model, a more extensive model, than closed-form models such as the Black-Scholes model, at the present time.

On September 29, 2006, the Company had one principal equity compensation plan and employee stock purchase plan described below. The compensation cost that has been charged against income for the equity plan under FAS 123R was \$309,000 and \$477,000 and for the stock purchase plan it was \$215,000 and \$414,000 for the three and six months ended September 29, 2006, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$120,000 and \$173,000 for the three and six months ended September 29, 2006, respectively. There was no compensation cost capitalized as part of inventory and fixed assets for the three and six months ended September 29, 2006, respectively, as the amounts were not significant.

The 1996 Equity Participation Plan of ViaSat, Inc., as amended on October 4, 2006 (the Plan), which is stockholder-approved, permits the grant of stock options, stock appreciation rights, restricted stock and other awards to its employees for up to 10,600,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on three to five years of continuous service and have terms from six to ten years. As of September 29, 2006, the Company had granted options net of cancellations to purchase 7,145,369 shares of common stock under the Plan.

The ViaSat, Inc. Employee Stock Purchase Plan (the Employee Stock Purchase Plan) assists employees in acquiring a stock ownership interest in the Company and encourages them to remain in the employment of the Company. The Employee Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. The maximum number of shares reserved for issuance under this plan is 1,500,000 shares. The Employee Stock Purchase Plan permits eligible employees to purchase common stock at a discount through payroll deductions during specified six-month offering periods. No employee may purchase more than \$25,000 worth of stock in any calendar year. The price of shares purchased under the Employee Stock Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. As of September 29, 2006, the Company had issued 1,042,455 shares of common stock under this plan.

As of September 29, 2006, there was \$3.0 million and \$203,000, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan and the Employee Stock Purchase Plan. These costs are expected to be recognized over a weighted-average period of 2.0 years. The total fair value of shares vested during the three and six months ended September 29, 2006 were \$309,000 and \$477,000, respectively.

Cash received from option exercise under all share-based payment arrangements for the six months ended September 29, 2006 was \$4.6 million. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$1.1 million for the six months ended September 29, 2006.

The weighted-average estimated fair value of employee stock options granted and employee stock purchase plan shares issued during the six months ended September 29, 2006 were \$16.16 and \$6.85 per share, respectively, using the Black-Scholes model with the following weighted-average assumptions (annualized percentages) for the six months ended September 29, 2006:

	Employee Stock Options	Employee Stock Purchase Plan
Volatility	65.2%	38.0%

Risk-free interest rate		5.0%	5.3%
Dividend yield		0.0%	0.0%
Weighted average expected life		6.0 years	0.5 years

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

The expected life of employee stock options represents the calculation using the simplified method consistent with the guidance in SAB 107. The Company expects to replace the simplified method with the historical data method for the valuation of shares granted after December 31, 2007, as more detailed information becomes readily available to the Company, consistent with the guidance in SAB 107. The weighted average expected life of employee stock options granted during the six months ended September 29, 2006 derived from the simplified method was 6.0 years. The expected term or life of employee stock purchase rights issued represents the expected period of time from the date of grant to the estimated date that the stock purchase right under our Employee Stock Purchase Plan would be fully exercised.

A summary of employee stock option activity for the six months ended September 29, 2006 is presented below:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000 s)
Outstanding at April 1, 2006	5,700,146	\$ 16.70		
Options granted	134,000	25.41		
Options canceled	(30,243)	18.84		
Options exercised	(239,746)	14.59		
Outstanding at September 29, 2006	5,564,157	\$ 16.99	5.57	\$ 45,547
Vested and exercisable at September 29, 2006	5,334,124	\$ 16.74	5.51	\$ 44,907

The total intrinsic value of stock options exercised during the six months ended September 29, 2006 was \$3.2 million.

As share-based compensation expense recognized in the condensed consolidated statement of operations for the three and six months ended September 29, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under FAS 123 for the periods prior to fiscal 2007, the Company accounted for forfeitures as they occurred.

Total estimated share-based compensation expense, related to the Company's FAS 123R share-based awards, recognized for the three and six months ended September 29, 2006 was comprised as follows:

Three months ended September 29, 2006 (In thousands,	Six months ended September 29, 2006 (In thousands,

	except per share data)	except per share data)
Cost of revenues	\$ 161	\$ 307
Selling, general and administrative	331	537
Independent research and development	32	47
Share-based compensation expense before taxes	524	891
Related income tax benefits	(120)	(173)
Share-based compensation expense, net of taxes	\$ 404	\$ 718
Net share-based compensation expense, per common share:		
Basic	\$ 0.01	\$ 0.03
Diluted	\$ 0.01	\$ 0.02

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VIASAT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The Company recorded \$128,000 and \$180,000 in share-based compensation expense during the three and six months ended September 29, 2006, respectively, related to share-based awards granted during fiscal 2007. In addition, for the six months ended September 29, 2006, the adoption of FAS 123R resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities of \$550,000, related to incremental tax benefits from stock options exercised in the period.

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

For purposes of pro forma disclosures under FAS 123 for the three and six months ended September 30, 2005, the estimated fair value of the share-based awards was assumed to be amortized to expense over the vesting periods. The pro forma effects of recognizing estimated compensation expense under the fair value method on net income and earnings per common share were as follows:

	Three months ended September 30, 2005	Six months ended September 30, 2005
Net income as reported	\$ 5,953	\$ 11,129
Stock based compensation included in net income, net of tax		
Stock based employee compensation expense under fair value based method, net of tax	(2,343)	(4,691)
Pro forma net income	\$ 3,610	\$ 6,438
Basic earnings per share		
As reported	\$ 0.22	\$ 0.41
Pro forma	\$ 0.13	\$ 0.24
Diluted earnings per share		
As reported	\$ 0.21	\$ 0.39
Pro forma	\$ 0.13	\$ 0.23

The weighted-average estimated fair value of employee stock options granted and employee stock purchase plan shares issued during the six months ended September 30, 2005 was \$12.21 and \$5.28 per share, respectively, using the Black-Scholes model with the following weighted-average assumptions (annualized percentages) for the six months ended September 30, 2005:

	Employee Stock Options	Employee Stock Purchase Plan
Expected life (in years)	6.1	0.5
Risk-free interest rate	3.9%	2.6%
Expected volatility	55.0%	37.0%
Expected dividend yield	0.0%	0.0%

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

Review of Stock Option Grant Procedures

In August 2006 we commenced and completed a voluntary internal investigation, assisted by our outside legal counsel, of our historical stock option granting practices, stock option documentation and related accounting during the period from our initial public offering in December 1996 through June 30, 2006. At the conclusion of our investigation, our outside legal counsel and the Company determined that there was no evidence of a pattern of intentionally misdating stock option grants to achieve an accounting result, or that any officer, director, or senior executive at the Company willfully or knowingly engaged in stock options misdating, or had knowledge of others doing so.

During the investigation we identified certain accounting errors associated with stock options granted primarily to certain non-executive new hire employees during the ten-year period from December 1996 to June 30, 2006. Based on the results of the investigation, we identified that certain stock options to non-executive new hires had incorrectly been accounted for using an accounting measurement date prior to the date that the new hires commenced employment. We concluded, with the concurrence of the Audit Committee, that the financial impact of these errors was not material to our consolidated financial statements for any annual period in which the errors related. In accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraph 29, we recorded a cumulative adjustment to compensation expense in the first quarter of fiscal year 2007 of \$703,000, net of tax, because the effect of the correcting adjustment is not material to our expected fiscal 2007 net income. This non-cash compensation expense will have no impact on future periods. There is no impact on revenue or net cash provided by operating activities as a result of recording the compensation expense.

Recent Accounting Pronouncements

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

In September 2006, the SEC released Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides interpretive guidance on the SEC's views regarding the process of quantifying materiality of financial statement misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006, with early application for the first interim period ending after November 15, 2006. We are currently evaluating the impact of adopting SAB 108 on our financial statements.

In September 2006, the FASB issued Statement No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently assessing the impact that SFAS 157 will have on our results of operations and financial position.

In September 2006, the FASB issued Statement No. 158 (SFAS 158), Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires companies to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income, effective for fiscal years ending after December 15, 2006. SFAS 158 also requires companies to measure the funded status of the plan as of the date of its fiscal year-end, with limited exceptions, effective for fiscal years ending after December 15, 2008. We do not believe that SFAS 158 will have any effect on our results of operations or financial position, as we do not currently have any defined benefit pension or other post-retirement plans.

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Note 2 Revenue Recognition

A substantial portion of the Company's revenues are derived from long-term contracts requiring development and delivery of products over time and often contain fixed-price purchase options for additional products. Sales related to long-term contracts are accounted for under the percentage-of-completion method of accounting under the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Sales and earnings under these contracts are recorded either based on the ratio of actual costs incurred to total estimated costs expected to be incurred related to the contract, the cost-to-cost method, or as products are shipped under the units-of-delivery method. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. Changes in estimates of profit or loss on contracts are included in earnings on a cumulative basis in the period the estimate is changed. During the three months ended September 29, 2006 and September 30, 2005, we recorded charges of approximately \$319,000 and \$1.4 million, respectively, related to loss contracts. During the six months ended September 29, 2006 and September 30, 2005, we recorded charges of approximately \$1.4 million and \$3.3 million, respectively, related to loss contracts.

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

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

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

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

Note 3 Earnings Per Share

Potential common stock of 1,933,404 and 1,637,186 shares for the three months ended September 29, 2006 and September 30, 2005, respectively, and 2,038,600 and 1,427,581 shares for the six months ended September 29, 2006 and September 30, 2005, respectively, were included in the calculation of diluted earnings per share. Antidilutive shares excluded from the calculation were 372,382 and 292,355 shares for the three months ended September 29, 2006 and September 30, 2005, respectively, and 178,128 and 1,779,828 shares for the six months ended September 29, 2006 and September 30, 2005, respectively. Potential common stock is primarily comprised of options granted under our equity compensation plans.

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

	September 29, 2006	March 31, 2006
Accounts receivable, net:		
Billed	\$ 84,209	\$ 79,107
Unbilled	80,066	65,873
Allowance for doubtful accounts	(401)	(265)
	\$ 163,874	\$ 144,715
Inventories:		
Raw materials	\$ 10,717	\$ 28,457
Work in process	20,336	9,862
Finished goods	14,288	11,564
	\$ 45,341	\$ 49,883
Prepaid expenses and other current assets:		
Prepaid expenses	\$ 6,003	\$ 5,322
Other	5,442	638
	\$ 11,445	\$ 5,960
Other intangible assets, net:		
Technology	\$ 32,270	\$ 29,670
Contracts and relationships	17,836	15,436
Non-compete agreement	8,370	7,950
Other intangibles	9,225	8,075
	67,701	61,131
Less accumulated amortization	(41,829)	(37,148)
	\$ 25,872	\$ 23,983
Property and equipment, net:		
Machinery and equipment	\$ 49,613	\$ 47,704
Computer equipment and software	37,733	33,693
Furniture and fixtures	6,122	5,905
Leasehold improvements	9,716	7,617
Land held-for-sale	3,124	3,124
Construction in progress	6,397	5,808

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		112,705		103,851
Less accumulated depreciation		(63,672)		(57,640)
	\$	49,033	\$	46,211
Other assets:				
Capitalized software costs, net	\$	5,280	\$	6,963
Deferred income taxes		8,739		13,518
Other		2,807		1,808
	\$	16,826	\$	22,289
Accrued liabilities:				
Current portion of warranty reserve	\$	5,027	\$	4,395
Accrued vacation		6,689		6,381
Accrued bonus and 401(k) matching contribution		4,818		7,841
Collections in excess of revenues		18,418		15,141
Other		7,511		7,211
	\$	42,463	\$	40,969
Other liabilities:				
Accrued warranty	\$	5,343	\$	3,974
Long term portion of deferred rent		3,069		2,809
Deferred income taxes		1,764		1,764
Other		1,138		842
	\$	11,314	\$	9,389

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Note 5 Accounting for Goodwill and Intangible Assets

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

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

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

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

	Amortization
For the six months ended September 29, 2006	\$ 4,681
Expected for the remainder of fiscal year 2007	4,521
Expected for fiscal year 2008	6,610
Expected for fiscal year 2009	5,862
Expected for fiscal year 2010	2,638
Expected for fiscal year 2011	2,147
Thereafter	4,094
	\$ 25,872

Note 6 Notes Payable and Line of Credit

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

Borrowings under the Facility are permitted up to a maximum amount of \$60 million, including up to \$15 million of letters of credit. Borrowings under the Facility bear interest, at the Company's option, at either the lender's prime rate or at LIBOR (London Interbank Offered Rate) plus, in each case, an applicable margin based on the ratio of the Company's total funded debt to EBITDA (income from operations plus depreciation and amortization). The Facility is collateralized by substantially all of the Company's personal property assets. At September 29, 2006, the Company had approximately \$4.3 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of \$55.7 million.

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

at \$135.0 million and a minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter at 1.50 to 1.00. We were in compliance with our loan covenants at September 29, 2006.

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Note 7 Product Warranty

We provide limited warranties on most of our products for periods of up to five years. We record a liability for our warranty obligations when products are shipped based upon an estimate of expected warranty costs. Amounts expected to be incurred within twelve months are classified as a current liability. For mature products, the warranty cost estimates are based on historical experience with the particular product. For newer products that do not have a history of warranty costs, we base our estimates on our experience with the technology involved and the types of failures that may occur. It is possible that our underlying assumptions will not reflect the actual experience and in that case, future adjustments will be made to the recorded warranty obligation. The following table reflects the change in our warranty accrual during the six months ended September 29, 2006 and September 30, 2005 (in thousands).

	For the six months ended	
	September 29, 2006	September 30, 2005
Balance, beginning of period	\$ 8,369	\$ 7,179
Change in liability for warranties issued in period	3,461	2,738
Settlements made during the period	(1,460)	(1,806)
Balance, end of period	\$ 10,370	\$ 8,111

Note 8 Commitments and Contingencies

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

Note 9 Derivatives

During the three months ended September 29, 2006, the Company settled certain foreign exchange contracts recognizing a loss of \$1,000 recorded as cost of revenues based on the underlying transaction. During the six months ended September 29, 2006, the Company settled certain foreign exchange contracts recognizing a loss of \$137,000 recorded as cost of revenues based on the underlying transaction. The Company did not enter into new foreign currency exchange contracts during the six months ended September 29, 2006. At September 29, 2006, the Company had no outstanding foreign currency exchange contracts. We recorded a loss on foreign currency forward contracts for the three and six months ended September 30, 2005 of \$800 and \$236,200, respectively, as a cost of revenues based on the underlying transaction.

Note 10 Income Taxes

The effective income tax rate for the three months ended September 29, 2006 was 34.6%. The effective tax rate for the six months ended September 29, 2006 was 34.0%. Estimated annual effective tax rate for the fiscal year ending March 30, 2007 is 35.0%. The estimated tax rate is different from the expected statutory rate due primarily to research and development tax credits and the tax benefit for export sales.

Our estimated effective tax rate of 35.0% for fiscal year 2007 reflects the expiration of the federal research and development tax credit at December 31, 2005. If the federal research and development tax credit is reinstated, we will have a lower effective tax rate. In the event the federal tax research and development tax credit is reinstated, the amount of the reduction in our tax rate will depend on the effective date and terms of the reinstatement, as well as the amount of eligible research and development expenses in the reinstated period.

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Note 11 Segment Information

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

Reporting segments are determined consistent with the way the chief operating decision maker evaluates financial information internally for making operating decisions and assessing performance. The following table summarizes revenues and operating profits by reporting segment for the three and six months ended September 29, 2006 and September 30, 2005. Certain corporate general and administrative costs, amortization of intangible assets are not allocated to the segments and accordingly, are shown as reconciling items from segment operating profit and consolidated operating profit. Certain assets are not tracked by reporting segment. Depreciation expense is allocated to reporting segments as an overhead charge based on direct labor dollars within the reporting segments.

(in thousands)	Three months ended		Six months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Revenues				
Government	\$ 69,993	\$ 49,461	\$ 134,614	\$ 102,975
Commercial				
Satellite Networks	51,722	44,790	104,808	81,776
Antenna Systems	9,786	12,106	20,780	22,659
	61,508	56,896	125,588	104,435
Elimination of intersegment revenues		(2,245)		(3,321)
Total revenues	131,501	104,112	260,202	204,089
Operating profits (losses)				
Government	12,415	9,383	24,244	19,680
Commercial				
Satellite Networks	247	(240)	(1,373)	(3,343)
Antenna Systems	(212)	1,476	(566)	2,450
	35	1,236	(1,939)	(893)
Elimination of intersegment operating profits		(1,632)		(1,838)
	12,450	8,987	22,305	16,949

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Segment operating profit before corporate and amortization

Corporate	(15)	87	80	231
Amortization of intangible assets (1)	(2,621)	(1,512)	(4,681)	(3,024)
Income from operations	\$ 9,814	\$ 7,562	\$ 17,704	\$ 14,156

(1) Amortization of intangibles for Satellite Networks was \$1.8 million and \$1.3 million for the three months ended September 29, 2006 and September 30, 2005, respectively. Amortization of intangibles for Satellite Networks was \$3.6 million and \$2.7 million for the six months ended September 29, 2006 and September 30, 2005, respectively. Amortization for Antenna Systems was \$164,000 and \$164,000 for the three months ended September 29, 2006 and September 30, 2005, respectively. Amortization for Antenna Systems was \$328,000 and \$328,000 for the

six months ended September 29, 2006 and September 30, 2005, respectively. Amortization of intangibles for the government segment was \$688,000 and \$764,000 for the three and six months ended September 29, 2006, respectively. There was no amortization of intangibles for the government segment for the three and six months ended September 30, 2005.

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(in thousands)	September 29, 2006	March 31, 2006
Segment assets (2)		
Government	\$ 114,760	\$ 77,269
Commercial		
Satellite Networks	144,893	140,346
Antenna Systems	24,784	27,330
	169,677	167,676
Corporate assets	131,250	120,124
Total	\$ 415,687	\$ 365,069

(2) Assets identifiable to segments include: accounts receivable, unbilled accounts receivable, inventory, intangible assets and goodwill. At September 29, 2006, Satellite Networks had \$33.6 million of goodwill and \$18.4 million in net intangible assets, Antenna Systems had \$3.6 million of goodwill and \$1.7 million in net intangible assets, and the government segment had \$11.7 million of goodwill and

\$5.8 million in net intangible assets. At March 31, 2006, Satellite Networks had \$24.5 million of goodwill and \$22.0 million in net intangible assets, and Antenna Systems had \$3.6 million of goodwill and \$2.0 million in net intangible assets. Government segment had no goodwill or intangible assets on March 31, 2006.

Revenue information by geographic area for the three and six month periods ended September 29, 2006 and September 30, 2005 is as follows:

(in thousands)	Three months ended		Six months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
United States	\$ 114,059	\$ 83,868	\$ 223,669	\$ 166,549
Asia Pacific	6,348	6,668	11,502	14,636
Europe/Africa	8,356	7,015	18,128	10,941
North America other than United States	2,076	4,550	5,611	7,366
Latin America	662	2,011	1,292	4,597
	\$ 131,501	\$ 104,112	\$ 260,202	\$ 204,089

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

The net book value of long-lived assets located outside the United States was \$302,000 at September 29, 2006 and \$341,000 at March 31, 2006.

Note 12 Acquisition

On June 20, 2006, the Company completed the acquisition of all of the outstanding capital stock of Enerdyne Technologies, Inc. (Enerdyne), a privately-held provider of innovative data link equipment and digital video systems for defense and intelligence markets, including unmanned aerial vehicle and other airborne and ground based applications. The initial purchase price of approximately \$17.5 million was comprised primarily of \$16.4 million related to the fair value of 724,231 shares of the Company's common stock issued at the closing date, \$500,000 in cash consideration, and \$700,000 in direct acquisition costs. The \$1.2 million of cash consideration paid to the shareholders and the transaction expenses paid less cash acquired of \$900,000 resulted in a net cash outlay of approximately

\$281,000. An additional \$8.7 million in consideration is payable in cash and/or stock at the Company's option based on Enerdyne achieving certain earnings performance in any fiscal year up to and including the Company's 2010 fiscal year (as well as projected earnings performance for the one-year period thereafter) and will be recorded as additional purchase price. No portion of the earn-out is guaranteed. The additional consideration, if earned, is payable in cash and/or shares of the Company's common stock after the fiscal year in which Enerdyne achieves the specified earnings performance.

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

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

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

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

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

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

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

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

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

General

We produce innovative satellite and other communication products that enable fast, secure and efficient communications to any location. The Company provides networking products and managed network services for enterprise IP applications network-centric military communications and encryption technologies to the U.S. government; and gateway and customer-premises equipment for consumer and mobile satellite broadband services. The Company's three wholly owned subsidiaries, US Monolithics, Efficient Channel Coding, and Enerdyne Technologies design and produce complimentary products such as monolithic microwave integrated circuits, DVB-S2 satellite communication components, and video data link systems. Our goal is to leverage our advanced technology and capabilities to capture a considerable share of the global satellite communications equipment and services segment for both government and commercial customers. ViaSat was incorporated in 1986 and completed its initial public offering in 1996.

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

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

Tactical data links, including multifunction information distribution system (MIDS) products and Joint Tactical Radio Systems (JTRS) development variant,

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

Government satellite communication products and services, which provide innovative solutions to government customers to increase available bandwidth using existing satellite capacity, and

Simulation and test equipment, which allows the testing of sophisticated airborne radio equipment without expensive flight exercises.

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

We have been increasing our focus in recent years on offering satellite based communications products and systems solutions to address commercial market needs. In pursuing this strategy, we have acquired four strategic satellite communication equipment providers: (1) the satellite networks business of Scientific-Atlanta in fiscal year 2001; (2) Comsat Laboratories products business from Lockheed Martin in fiscal year 2002; (3) US Monolithics, LLC in fiscal year 2002; and (4) Efficient Channel Coding, Inc. in fiscal year 2006. Our commercial business accounted for approximately 47% and 55% of our revenues in the three months ended September 29, 2006 and September 30, 2005, respectively, 48% and 51% of our revenues in the six months ended September 29, 2006 and September 30, 2005, respectively, and 53% and 51% of our revenues in fiscal years 2006 and 2005, respectively. 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

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satellite ground stations. In addition, based on our advanced satellite technology and systems integration experience, we have won several important projects in the three key broadband markets: enterprise, consumer and in-flight mobile applications.

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

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

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

Enterprise VSAT networks products and services,

Antenna systems for commercial and defense applications and customers,

Satellite networking systems design and technology development, and

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

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

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

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

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

On June 20, 2006, the Company completed the acquisition of all of the outstanding capital stock of Enerdyne Technologies, Inc. (Enerdyne), a privately-held provider of innovative data link equipment and digital video systems for defense and intelligence markets, including unmanned aerial vehicle and other airborne and ground based applications. The initial purchase price of approximately \$17.5 million was comprised primarily of \$16.4 million related to the fair value of 724,231 shares of the Company's common stock issued at the closing date, \$500,000 in cash consideration, and \$700,000 in direct acquisition costs. The \$1.2 million of cash consideration paid to the shareholders and the transaction expenses paid less cash acquired of \$900,000 resulted in a net cash outlay of approximately \$281,000. An additional \$8.7 million in consideration is payable in cash and/or stock at the Company's option based

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

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

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

Critical Accounting Policies and Estimates

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

Share-Based Payments

We grant options to purchase our common stock to our employees and directors under our equity compensation plans. Eligible employees can also purchase shares of our common stock at 85% of the lower of the fair market value on the first or the last day of each six-month offering period under the Employee Stock Purchase Plan. The benefits provided under these plans are share-based payments subject to the provisions of revised Statement of Financial Accounting Standards No. 123 (FAS 123R), Share-Based Payment. Effective April 1, 2006, we use the fair value method to apply the provisions of FAS 123R with a modified prospective application which provides for certain changes to the method for estimating the value of share-based compensation. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date, which are subsequently modified or cancelled. Under the modified prospective application method, prior periods are not revised for comparative purposes. Share-based compensation expense recognized under FAS 123R for the three and six months ended September 29, 2006 was \$524,000 and \$891,000, respectively. At September 29, 2006, total unrecognized estimated compensation expense related to non-vested stock options and the Employee Stock Purchase Plan granted prior to that date were \$3.0 million and \$203,000, respectively, which is expected to be recognized over a weighted-average period of 2.0 years.

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

If factors change and we employ different assumptions in the application of FAS 123R in future periods, the compensation expense that we record under FAS 123R may differ significantly from what we have recorded in the current period. Therefore, we believe it is important for investors to be aware of the high degree of subjectivity involved when using option pricing models to estimate share-based compensation under FAS 123R. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions,

are fully transferable and do not cause dilution. Because our share-based payments have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect our estimates of fair values, in our opinion, existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our share-based compensation.

Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those share-based payments

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in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, values may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the fair value of employee share-based awards is determined in accordance with FAS 123R and the Securities and Exchange Commission's Staff Accounting Bulletin No. 107 (SAB 107), using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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

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

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

The expected life of employee stock options represents the calculation using the simplified method for plain vanilla options applied consistently to all plain vanilla options, consistent with the guidance in SAB 107. The Company expects to replace the simplified method with the historical data method for the valuation of shares granted after December 31, 2007, as more detailed information becomes readily available to the Company, consistent with the guidance in SAB 107. The weighted average expected life of employee stock options granted during the six months ended September 29, 2006 derived from the simplified method was 6.0 years. The expected term or life of employee stock purchase rights issued represents the expected period of time from the date of grant to the estimated date that the stock purchase right under our Employee Stock Purchase Plan would be fully exercised.

Review of Stock Option Grant Procedures

In August 2006 we commenced and completed a voluntary internal investigation, assisted by our outside legal counsel, of our historical stock option granting practices, stock option documentation and related accounting during the period from our initial public offering in December 1996 through June 30, 2006. At the conclusion of our investigation, our outside legal counsel and the Company determined that there was no evidence of a pattern of intentionally misdating stock option grants to achieve an accounting result, or that any officer, director, or senior executive at the Company willfully or knowingly engaged in stock options misdating, or had knowledge of others doing so.

During the investigation we identified certain accounting errors associated with stock options granted primarily to certain non-executive new hire employees during the ten-year period from December 1996 to June 30, 2006. Based on the results of the investigation, we identified that certain stock options to non-executive new hires had incorrectly been accounted for using an accounting measurement date prior to the date that the new hires commenced employment. We concluded, with the concurrence of the Audit Committee, that the financial impact of these errors

was not material to our consolidated financial statements for any annual period in which the errors related. In accordance with Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraph 29, we recorded a cumulative adjustment to compensation expense in the first quarter of fiscal year 2007 of \$703,000, net of tax, because the effect of the correcting adjustment is not material to our expected fiscal 2007 net income. This non-cash compensation expense will have no impact on future periods. There is no impact on revenue or net cash provided by operating activities as a result of recording the compensation expense.

Table of Contents*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. During the three months ended September 29, 2006 and September 30, 2005, we recorded charges of approximately \$319,000 and \$1.4 million, respectively, related to loss contracts. During the six months ended September 29, 2006 and September 30, 2005, we recorded charges of approximately \$1.4 million and \$3.3 million, respectively, related to loss contracts.

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

The Company believes it has established appropriate systems and processes to enable it to reasonably estimate future cost on its programs through regular quarterly evaluations of contract costs, scheduling and technical matters by business unit personnel and management. Historically, in the aggregate, the Company has not experienced significant deviations in actual costs from estimated program costs, and when deviations that result in significant adjustments arise, we disclose the related impact in Management's Discussion and Analysis. However, a significant change in future cost estimates on one or more programs could have a material effect on the Company's results of operations. For example, a one percent variance in our future cost estimates on open fixed-price contracts as of September 29, 2006 would change our pre-tax income by approximately \$357,000.

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

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

Allowance for doubtful accounts

We make estimates of the collectibility of our accounts receivable based on historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Historically, our bad debts have been minimal; a contributing factor to this is that a significant portion of our sales has been to the U.S. government. More recently, commercial customers comprise a larger part of our revenues. Our accounts receivables balance was \$163.9 million, net of allowance

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for doubtful accounts of \$401,000 as of September 29, 2006 and our accounts receivables balance was \$144.7 million, net of allowance for doubtful accounts of \$265,000 as of March 31, 2006.

Warranty reserves

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

Goodwill and other intangible assets

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

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

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

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

Valuation allowance on deferred tax assets

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

Derivatives

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

recorded in the same income statement line as the underlying transaction. We had no foreign currency forward contracts outstanding at September 29, 2006. We had \$6.0 million of notional value of foreign currency forward contracts outstanding at September 30, 2005.

Self-Insurance Liabilities

We self-insure a portion of the exposure for losses related to workers' compensation costs and employee medical benefits. Accounting for workers' compensation expense and employee medical benefits require the use of estimates and assumptions regarding numerous factors, including ultimate severity of injuries, the timeliness of reporting injuries, and health care cost increases. We insure for workers' compensation and employee medical benefit liabilities under a large deductible program where losses are incurred up to certain specific and aggregate amounts. Accruals for claims under this self-insurance program are recorded as claims are incurred. We estimate our liability for claims incurred but not paid, including claims incurred but not recorded, based on the total incurred claims and paid claims, adjusted for ultimate losses as determined by our insurance carrier. We evaluate the estimated liability on a continuing basis and adjust accordingly. To date, workers' compensation expense and employee medical benefits expense have been within the range of management's expectations.

Table of Contents**Results of Operations**

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

	Three months ended		Six months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Cost of revenues	74.1	75.1	75.2	75.4
Selling, general and administrative	12.8	12.8	12.5	12.8
Independent research and development	3.6	3.4	3.7	3.4
Amortization of intangible assets	2.0	1.4	1.8	1.5
Income from operations	7.5	7.3	6.8	6.9
Income before income taxes	7.6	7.2	7.0	6.9
Net income	5.0	5.7	4.6	5.5

The results of operations for the six-month period ended September 30, 2005 include a benefit to Cost of revenues related to a legal settlement with Xetron Corporation of \$2.7 million.

Three Months Ended September 29, 2006 vs. Three Months Ended September 30, 2005*Revenues*

(In millions, except percentages)	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
Revenues	\$131.5	\$104.1	\$27.4	26.3%

The increase in revenues was due to our higher beginning backlog of \$374.9 million, quarterly customer awards of \$141.4 million and the conversion of certain backlog and awards into revenues. Revenue increases were experienced in both our government, \$20.5 million, and commercial segments, \$4.6 million. The revenue increase in the government segment was predominantly derived from increased revenues of approximately \$15.5 million for next generation MIDS products, \$1.5 million in certain information assurance products and \$2.5 million from the recently acquired Enerdyne business. The revenue increase in the commercial segment was predominately derived from the increased sales of consumer broadband products of approximately \$8.7 million and \$3.2 million in revenues from the Efficient Channel Coding business, offset by a decrease of approximately \$2.5 million from our enterprise VSAT products and \$2.4 million from our Antenna Systems products.

Cost of Revenues

(In millions, except percentages)	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
Cost of revenues	\$97.4	\$78.2	\$19.3	24.7%
Percentage of revenues	74.1%	75.1%		

The increase in quarterly cost of revenues from \$78.2 million to \$97.4 million is primarily due to the Company's increased revenues. Accordingly, the Company's gross profit increase from \$26.0 million to \$34.1 million reflected increases due to revenue growth in addition to improved product margin mix from the Company's consumer broadband products, which yielded margin improvements of approximately 5.2 percentage points from the same quarter last year. The \$8.1 million in gross profit increases included approximately \$161,000 in stock based compensation charges recorded in the second quarter of fiscal 2007. Gross profit may fluctuate in future quarters

depending on the mix of products sold and services provided, competition, new product introduction costs and other factors.

Table of Contents*Selling, General and Administrative Expenses*

	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Selling, general and administrative	\$ 16.8	\$ 13.3	\$ 3.5	26.0%
Percentage of revenues	12.8%	12.8%		

The increase in selling, general and administrative (SG&A) expenses in the second quarter of 2007 compared to the second quarter of 2006 was primarily attributable to higher selling and personnel costs to support our growth of approximately \$3.0 million and \$331,000 in stock based compensation expense recorded in the second quarter of fiscal 2007. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Some SG&A expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

Independent Research and Development

	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Independent research and development	\$ 4.8	\$ 3.6	\$ 1.3	35.8%
Percentage of revenues	3.6%	3.4%		

The increase in independent research and development (IR&D) expenses reflects year over year increases primarily in the government segment of approximately \$800,000, due to planned development efforts in future data link, mobile communication and information assurance products. The commercial segment contributed \$500,000 in IR&D increase, due to planned efforts related to next generation VSAT equipment. The higher IR&D expenses reflect our recognition of certain opportunities in these markets and the need to invest in the development of new technologies to meet these opportunities.

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

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

	Amortization
For the six months ended September 29, 2006	\$ 4,681
Expected for the remainder of fiscal year 2007	4,521
Expected for fiscal year 2008	6,610
Expected for fiscal year 2009	5,862
Expected for fiscal year 2010	2,638
Expected for fiscal year 2011	2,147
Thereafter	4,094
	\$ 25,872

Interest Income Interest income increased to \$423,000 for the three months ended September 29, 2006 from \$2,000 for the three months ended September 30, 2005 due to higher average invested cash balances year over year and higher interest rates.

Interest Expense Interest expense was \$200,000 for the three months ended September 29, 2006 and \$28,000 for the three months ended September 30, 2005. We had no outstanding borrowings under our line of credit at September 29, 2006 or September 30, 2005.

Provision for Income Taxes Our effective tax rate for the three months ended September 29, 2006 was approximately 34.6%, which is approximately equal to the 35.0% estimated annual effective tax rate for the fiscal year ending March 30, 2007, compared to a 21.6% tax rate for the three months ended September 30, 2005. Our estimated effective tax rate of approximately 35.0% for fiscal year 2007 reflects the expiration of the federal research and development tax credit at December 31, 2005. If the federal research and development tax credit is reinstated, we will have a lower effective tax rate and the amount of the tax rate reduction will depend on the effective date, the terms of the reinstatement as well as the amount of eligible research and development expenses in the reinstated period.

Table of Contents**Our Segment Results for the Three Months Ended September 29, 2006 vs. Three Months Ended September 30, 2005****Government Segment***Revenues*

	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Revenues	\$70.0	\$ 49.5	\$20.5	41.5%

The government segment received awards of \$68.2 million for the second quarter of fiscal year 2007 compared to \$58.7 million for the second quarter of fiscal year 2006. Revenue increase was predominantly derived from increased revenues of approximately \$15.5 million for next generation MIDS products, \$1.5 million in certain information assurance products and \$2.5 million from the recently acquired Enerdyne business.

Segment Operating Profit

	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Operating profit	\$12.4	\$ 9.4	\$ 3.0	32.3%
Percentage of government segment revenues	17.7%	19.0%		

The increase in government segment operating profit was primarily related to higher revenues and gross margins dollars partially offset by higher selling and administration costs of \$1.6 million and IR&D of \$800,000.

Commercial Segment*Revenues*

	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Satellite Networks				
Revenues	\$51.7	\$ 44.8	\$ 6.9	15.5%
Antenna Systems				
Revenues	\$ 9.8	\$ 12.1	\$(2.3)	(19.2)%
Total Commercial Segment				
Revenues	\$61.5	\$ 56.9	\$ 4.6	8.1%

The increase in commercial segment revenues reflects higher sales in the Satellite Networks product lines. The majority of the increase was attributable to sales growth from consumer broadband products of approximately \$8.7 million, offset by a decrease of approximately \$2.5 million from our enterprise VSAT products and approximately \$2.4 million from our Antenna Systems products.

Segment Operating Profit

	Three months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Satellite Networks				
Satellite Networks operating profit (loss)	\$ 0.2	\$ (0.2)	\$ 0.5	202.9%

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Percentage of Satellite Network revenues	0.5%	(0.5)%		
Antenna Systems				
Antenna Systems operating (loss) profit	\$(0.2)	\$ 1.5	\$(1.7)	(114.4)%
Percentage of Antenna Systems revenues	(2.2)%	12.2%		
Total Commercial Segment				
Segment operating profit	\$ 0.0	\$ 1.2	\$(1.2)	(97.2)%
Percentage of commercial segment revenues	0.1%	2.2%		

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The decrease in commercial segment operating profit is primarily due to decrease revenues and gross margin percentages from our Antenna Systems products offset by higher revenues of \$8.7 million and related gross margins in our consumer broadband products in the Satellite Networks product group. Additionally the segment had increased IR&D expenses of approximately \$500,000, primarily for planned development efforts related to next generation VSAT equipment.

Six Months Ended September 29, 2006 vs. Six Months Ended September 30, 2005*Revenues*

	Six months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Revenues	\$260.2	\$ 204.1	\$56.1	27.5%

The increase in revenues was due to our beginning backlog of \$361.9 million and customer awards of \$275.3 million for the first six months of our fiscal year 2007 and the conversion of certain backlog and awards into revenues. Revenue growth was experienced in both our government and commercial segments. Growth primarily derived from our tactical data link products contributing \$12.4 million, certain information assurance products increasing approximately \$8.0 million, increases from consumer broadband products of approximately \$21.2 million, offset by decreases in certain mobile broadband communication products of approximately \$4.4 million from the prior year. In addition, the recently acquired Efficient Channel Coding and Enerdyne business contributed \$9.3 million to revenue increase in first six months of fiscal year 2007 when compared to first six months of fiscal year 2006.

Cost of Revenues

	Six months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Cost of revenues	\$195.6	\$ 153.9	\$41.7	27.1%
Percentage of revenues	75.2%	75.4%		

The increase in cost of revenues from \$153.9 million to \$195.6 million is primarily due to the Company's increased revenues. Accordingly, the Company's gross profit increase from \$50.2 million to \$64.6 million reflected increases due to revenue growth in addition to improved product margin mix from the Company's consumer broadband products, which yielded margin improvements of approximately 12.3 percentage points compared to the same period last year. In addition, the recently acquired Efficient Channel Coding and Enerdyne business added approximately 2.7 percentage points to overall gross margin performance year to date. The \$14.4 million in gross profit increases included approximately \$1.1 million in stock based compensation charges recorded in the first six months of fiscal 2007. Gross profit may fluctuate in future quarters depending on the mix of products sold and services provided, competition, new product introduction costs and other factors.

Selling, General and Administrative Expenses

	Six months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Selling, general and administrative	\$32.6	\$ 26.2	\$ 6.5	24.7%
Percentage of revenues	12.5%	12.8%		

The increase in SG&A expenses for the first six months of fiscal 2007 compared to the first six months of 2006 is primarily attributable to higher selling and personnel costs to support our growth and acquisitions of approximately \$5.6 million and approximately \$787,000 in stock based compensation expense recorded in the first six months of

fiscal 2007. SG&A expenses consist primarily of personnel costs and expenses for business development, marketing and sales, bid and proposal, finance, contract administration and general management. Some SG&A expenses are difficult to predict and vary based on specific government and commercial sales opportunities.

Table of Contents*Independent Research and Development*

(In millions, except percentages)	Six months ended		Dollar Increase (Decrease)	Percentage Increase (Decrease)
	September 29, 2006	September 30, 2005		
Independent research and development	\$9.6	\$ 6.9	\$ 2.8	40.3%
Percentage of revenues	3.7%	3.4%		

The increase in IR&D expenses reflects year over year increases in the government segment of \$934,000 and the commercial segment of \$1.8 million. The higher IR&D expenses reflect our recognition of certain opportunities in these markets and the need to invest in the development of new technologies to meet these opportunities.

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

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

	Amortization
For the six months ended September 29, 2006	\$ 4,681
Expected for the remainder of fiscal year 2007	4,521
Expected for fiscal year 2008	6,610
Expected for fiscal year 2009	5,862
Expected for fiscal year 2010	2,638
Expected for fiscal year 2011	2,147
Thereafter	4,094
	\$ 25,872

Interest Income Interest income increased to \$749,000 for the six months ended September 29, 2006 from \$4,000 for the six months ended September 30, 2005 due to higher average invested cash balances year over year and higher interest rates.

Interest Expense Interest expense increased to \$291,000 for the six months ended September 29, 2006 from \$179,000 for the six months ended September 30, 2005. We had no outstanding borrowings under our line of credit at September 29, 2006 or September 30, 2005.

Provision for Income Taxes Our effective tax rate for the six months ended September 29, 2006 was approximately 34.0% compared to 20.7% for the six months ended September 30, 2005. We currently estimate our annual effective income tax rate to be approximately 35.0% for fiscal year 2007, which reflects the expiration of the federal research and development tax credit at December 31, 2005. If the federal research and development tax credit is reinstated, we will have a lower effective tax rate, and the amount of the reduction in our tax rate will depend on the effective date, the terms of the reinstatement as well as the amount of eligible research and development expenses in the reinstated period.

Our Segment Results for the Six Months Ended September 29, 2006 vs. Six Months Ended September 30, 2005
Government Segment

Revenues

(In millions, except percentages)	Six months ended		Dollar Increase (Decrease)	Percentage Increase (Decrease)
	September 29, 2006	September 30, 2005		

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Revenues	\$134.6	\$ 103.0	\$31.6	30.7%
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The government segment received awards of \$151.1 million for the first six months of fiscal year 2007 compared to \$140.1 million for the first six months of fiscal year 2006. The conversion of certain backlog and orders to revenue contributed to revenue growth. Increased revenues were primarily attributed to the following products: \$12.4 million for tactical data links,

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principally our MIDS units, \$11.4 million for certain information assurance systems and networking products and \$3.7 million from certain simulation and test equipment product. In addition, the acquisition of Enerdyne contributed \$2.9 million to revenue increase.

Segment Operating Profit

	Six months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Operating profit	\$24.2	\$ 19.7	\$ 4.6	23.2%
Percentage of government segment revenues	18.0%	19.1%		

The increase in government segment operating profit dollars was primarily related to the increased revenues period over period. The segment experienced increases of \$1.1 million in gross profits derived from small increases across various product including tactical data links, \$5.6 million in improved gross profit in certain information assurance systems, and approximately \$1.5 million in additional gross profit from the recently acquired Enerdyne business. These increases were partially offset by higher selling and administrative costs of \$2.4 million and independent research and development expenses of \$934,000.

Commercial Segment*Revenues*

	Six months ended		Dollar	Percentage
	September 29, 2006	September 30, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Satellite Networks				
Revenues	\$104.8	\$ 81.8	\$23.0	28.2%
Antenna Systems				
Revenues	\$ 20.8	\$ 22.7	\$ (1.9)	(8.3)%
Total Commercial Segment				
Revenues	\$125.6	\$ 104.4	\$21.2	20.3%

The increase in revenues reflects improved competitive positioning across all our commercial products, more favorable market conditions in the commercial telecommunications market for our VSAT network products and further development of our in-flight and consumer satellite broadband internet systems. Revenue increases were primarily attributable to increases from consumer broadband products of approximately \$21.2 million, offset by a decrease in our mobile broadband communication products of approximately \$4.4 million for the first six months of fiscal year 2007 over the first six months of fiscal year 2006. In addition, the recently acquired Efficient Channel Coding business contributed \$6.4 million to the revenue increase in first six months of fiscal year 2007 when compared to first six months of fiscal year 2006.

Segment Operating Profit

	Six months ended		Dollar	Percentage
	September 30, 2006	September 29, 2005	Increase (Decrease)	Increase (Decrease)
(In millions, except percentages)				
Satellite Networks				
Satellite Networks operating profit (loss)	\$(1.4)	\$ (3.3)	\$ 2.0	58.9%
Percentage of Satellite Network revenues	(1.3)%	(4.1)%		
Antenna Systems				
Antenna Systems operating profit	\$(0.6)	\$ 2.5	\$(3.0)	123.1%

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Percentage of Antenna Systems revenues	(2.7)%	10.8%		
Total Commercial Segment				
Segment operating profit (loss)	\$(1.9)	\$ (0.9)	\$(1.0)	(117.1)%
Percentage of commercial segment revenues	(1.5)%	(0.9)%		
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The decrease in commercial segment operating profit dollars was primarily attributed to increases in research and development expenses of \$1.8 million, decrease in Antenna Systems operating margin of \$3.0 million, primarily due to decreased revenues of our Antenna Systems products, offset by gross margins increases from our consumer broadband products due to growth in gross margins percentage of approximately 12.3 points.

Backlog

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

	September 29, 2006	March 31, 2006
	(in millions)	
Firm backlog		
Government segment	\$ 205.4	\$ 183.7
Commercial segment	189.8	191.2
Total	\$ 395.2	\$ 374.9
Funded backlog		
Government segment	\$ 149.4	\$ 132.9
Commercial segment	189.9	190.7
Total	\$ 339.3	\$ 323.6
Contract options	\$ 37.0	\$ 13.8

The firm backlog does not include contract options. Of the \$395.2 million in firm backlog, approximately \$174.1 million is expected to be delivered during the remaining six months of fiscal year 2007, and the balance is expected to be delivered in fiscal year 2008 and thereafter. We include in our backlog only those orders for which we have accepted purchase orders.

Backlog is not necessarily indicative of future sales. A majority of our contracts can be terminated at the convenience of the customer since orders are often made substantially in advance of delivery, and our contracts typically provide that orders may be terminated with limited or no penalties. In addition, contracts may present product specifications that require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related 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 (primarily associated with our government segment contracts) represents future amounts that customers may obligate over the specified contract performance periods. Our customers allocate funds for expenditures on long-term contracts on a periodic basis. Our ability to realize revenues from contracts in backlog is dependent upon adequate funding for such contracts. Although funding of our contracts is not within our control, our experience indicates that actual contract fundings have ultimately been approximately equal to the aggregate amounts of the contracts.

Liquidity and Capital Resources

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

requirements are usually lower.

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

Cash provided by operating activities for the first six months of fiscal year 2007 was \$13.5 million as compared to \$19.1 million for the first six months of fiscal year 2006. The decrease in cash provided by operating activities was primarily attributable to the

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\$15.0 million in additional cash outlays to fund changes in other operating assets and liabilities offset by slight increase in net income and the increase in non-cash add-backs of \$8.6 million. Billed accounts receivable increased from year end due to increased shipments in both our government and commercial segments and the achievement of program milestones. Unbilled accounts receivable increased mostly due to increases in our tactical data links and information assurance programs partially offset by continued reduction in consumer broadband programs.

Cash used in investing activities for the first six months of fiscal year 2007 was \$8.2 million as compared to cash used in investing activities for the first six months of fiscal year 2006 of \$7.8 million. The increase in cash used in investing activities primarily relates to capital increases from facility expansion projects and production test equipment to support our growth.

Cash provided by financing activities for the first six months of fiscal year 2007 was \$5.1 million as compared to cash provided by financing activities for the first six months of fiscal year 2006 of \$2.2 million. The majority of the activity for both years is due to cash received from the exercise of employee stock options, and stock purchases through our stock purchase plan. The six months ended September 29, 2006 also includes \$550,000 in cash inflows related to the incremental tax benefit from stock option exercises.

At September 29, 2006, we had \$47.4 million in cash, cash equivalents and short-term investments, \$171.1 million in working capital and no outstanding borrowings under our line of credit. We had \$4.3 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of \$55.7 million. At March 31, 2006, we had \$36.9 million in cash and cash equivalents and short-term investments, \$152.9 million in working capital and no outstanding borrowings under our line of credit.

On January 31, 2005, we entered into a three-year, \$60 million revolving credit facility (the Facility) with Union Bank of California, Comerica Bank and Wachovia 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 September 29, 2006.

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

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

Our future capital requirements will depend upon many factors, including the expansion of our research and development and marketing efforts and the nature and timing of orders. Additionally, we will continue to evaluate possible acquisitions of, or investments in complementary businesses, products and technologies which may require the use of cash. We believe that our current cash balances and net cash expected to be provided by operating activities

will be sufficient to meet our operating requirements for at least the next twelve months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position. The sale of additional securities could result in additional dilution of our stockholders. We invest our cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

Table of Contents**Contractual Obligations**

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

		For the remainder of	For the fiscal years			
	Total	fiscal year 2007	2008-2009	2010-2011	After 2011	
Operating leases	\$ 87,090	\$ 4,777	\$ 18,151	\$ 18,431	\$ 45,731	
Standby letters of credit	4,269	556	1,360	2,353		
Purchase commitments	118,150	64,419	53,371	360		
Total	\$ 209,509	\$ 69,752	\$ 72,882	\$ 21,144	\$ 45,731	

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

Recent Accounting Requirements

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

In September 2006, the SEC released Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides interpretive guidance on the SEC's views regarding the process of quantifying materiality of financial statement misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006, with early application for the first interim period ending after November 15, 2006. We ar