



2007 ANNUAL REPORT

## Financial Highlights

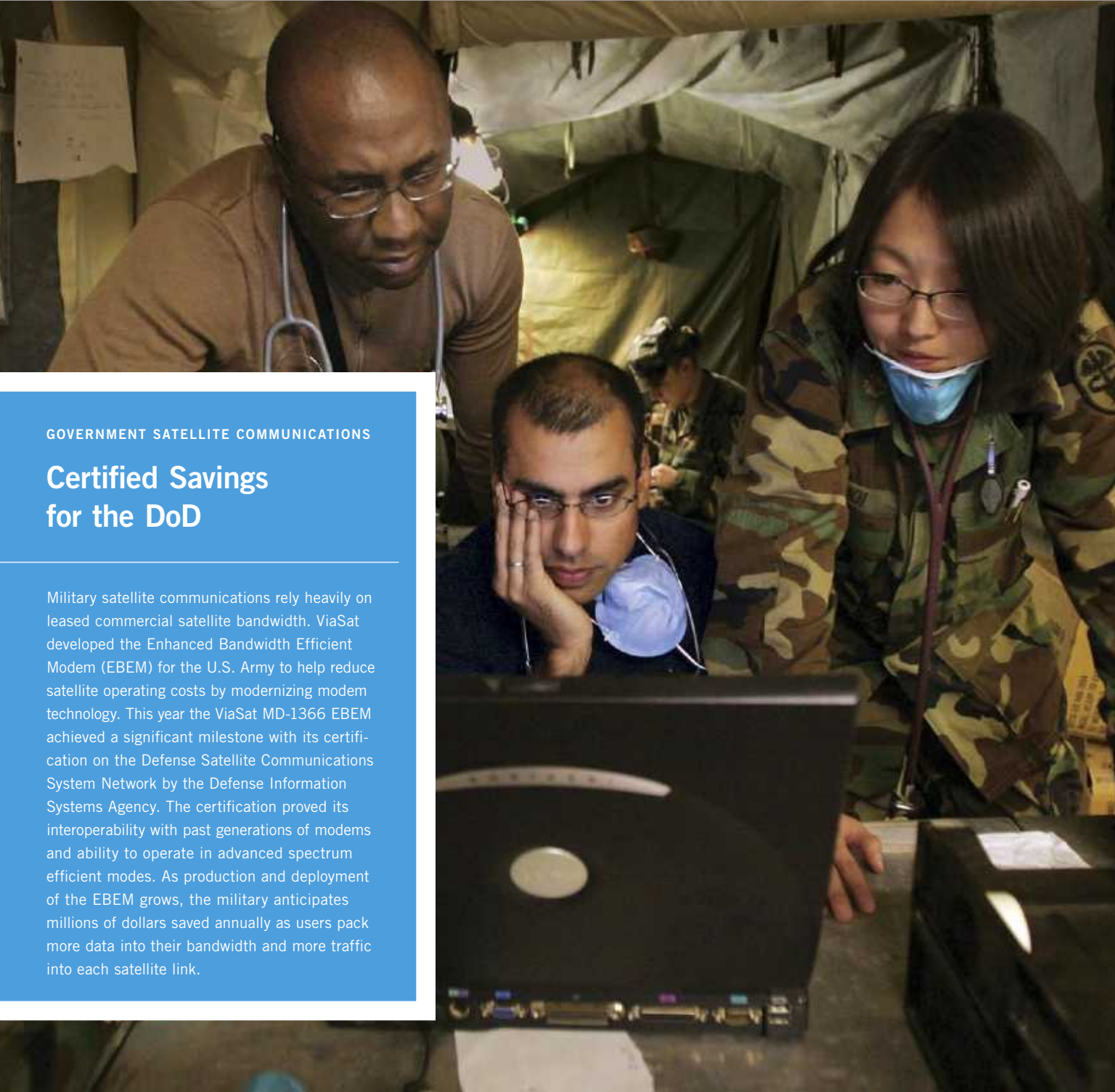
Years Ended (All amounts shown are in thousands, except per share data)	March 30, 2007	March 31, 2006	April 1, 2005
<b>STATEMENT OF INCOME DATA</b>			
Revenues	\$516,566	\$433,823	\$345,939
Operating expenses:			
Cost of revenues	380,092	325,271	262,260
Selling, general and administrative	69,896	57,059	48,631
Independent research and development	21,631	15,757	8,082
Amortization of intangible assets	9,502	6,806	6,642
Income (loss) from operations	35,445	28,930	20,324
Interest income (expense)	1,741	(200)	304
Income (loss) before income taxes and minority interest	37,186	28,730	20,628
Provision (benefit) for income taxes	6,755	5,105	1,246
Minority interest in net earnings of subsidiary, net of tax	265	110	115
Net income (loss)	\$ 30,166	\$ 23,515	\$ 19,267
Basic net income (loss) per share	\$ 1.06	\$ 0.87	\$ 0.72
Diluted net income (loss) per share	\$ 0.98	\$ 0.81	\$ 0.68
Shares used in computing basic net income (loss) per share	28,589	27,133	26,749
Shares used in computing diluted net income (loss) per share	30,893	28,857	28,147
<b>BALANCE SHEET DATA</b>			
Cash, cash equivalents and short-term investments	\$103,392	\$ 36,887	\$ 14,741
Working capital	187,406	152,907	138,859
Total assets	483,939	365,069	301,825
Other liabilities	13,273	7,625	3,911
Total stockholders' equity	348,795	263,298	226,283



#### MOBILE NETWORKS

## The New Mobile Command Post

In service since 1978, there are more than 2,500 Blackhawk helicopters flying for the U.S. and foreign militaries. Among its many missions is a command and control configuration. ViaSat has adapted its ArcLight® spread spectrum broadband satellite system to support that mission. Innovative new ArcLight software mitigates signal outages due to the Blackhawk's rotor blades—which otherwise block the view to the satellite about 30% of the time. During the past year the Army, Boeing, and ViaSat have worked together to bring an upgraded future command post to the skies, enabling Army commanders to quickly traverse the battle space by air and execute commands on the move, for increased operational effectiveness and greater situational awareness.

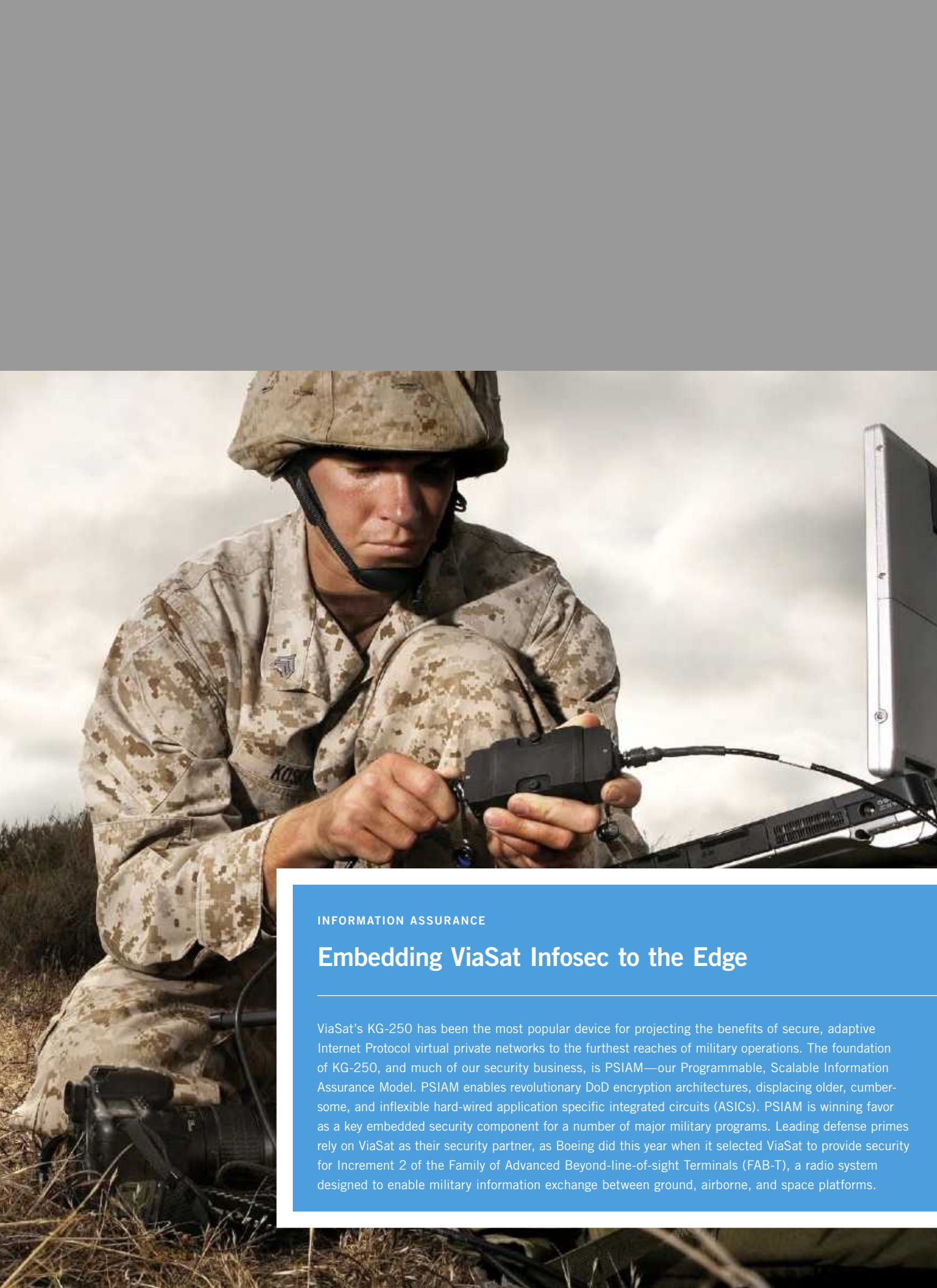


#### GOVERNMENT SATELLITE COMMUNICATIONS

## Certified Savings for the DoD

Military satellite communications rely heavily on leased commercial satellite bandwidth. ViaSat developed the Enhanced Bandwidth Efficient Modem (EBEM) for the U.S. Army to help reduce satellite operating costs by modernizing modem technology. This year the ViaSat MD-1366 EBEM achieved a significant milestone with its certification on the Defense Satellite Communications System Network by the Defense Information Systems Agency. The certification proved its interoperability with past generations of modems and ability to operate in advanced spectrum efficient modes. As production and deployment of the EBEM grows, the military anticipates millions of dollars saved annually as users pack more data into their bandwidth and more traffic into each satellite link.





#### INFORMATION ASSURANCE

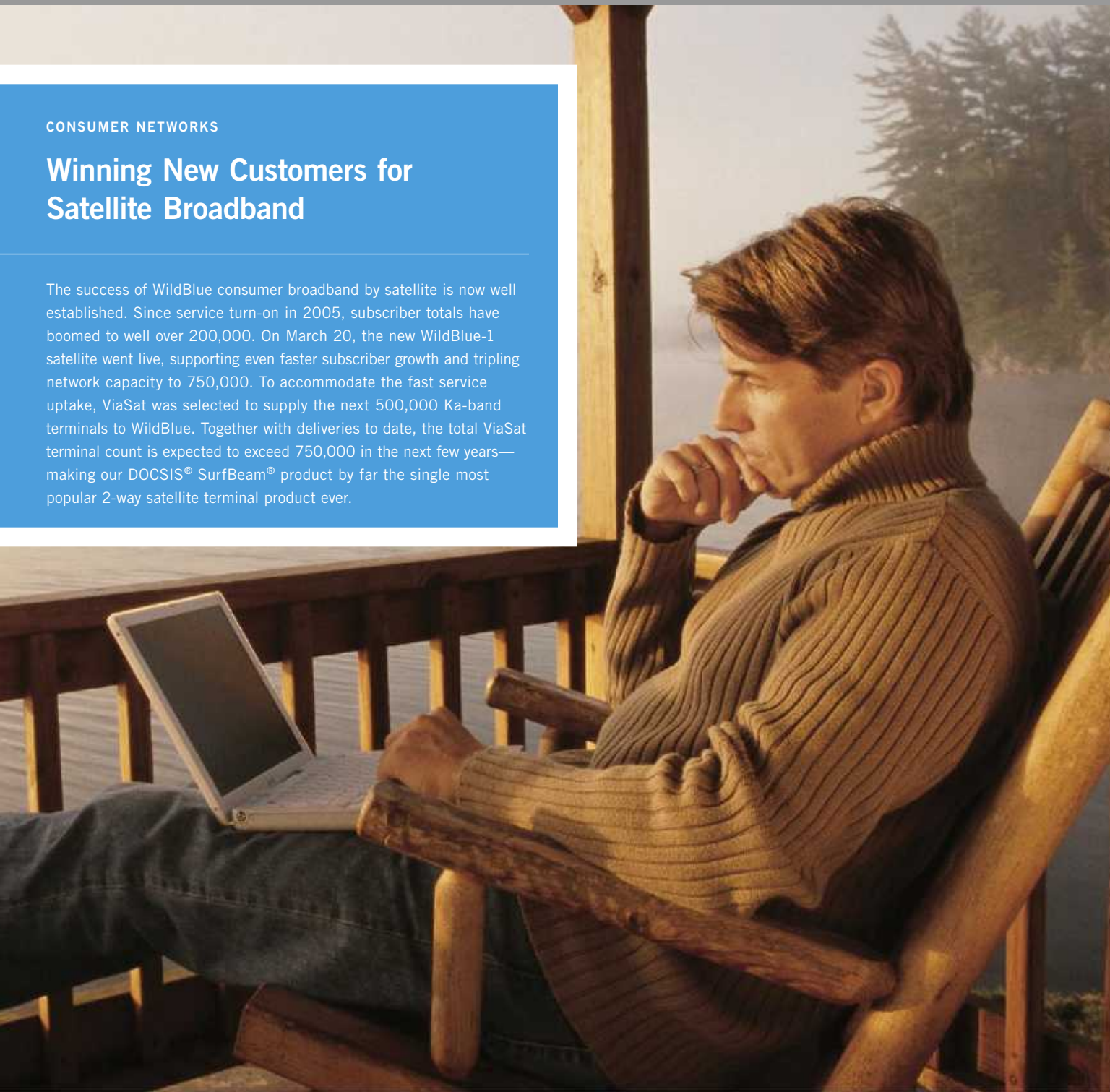
## Embedding ViaSat Infosec to the Edge

ViaSat's KG-250 has been the most popular device for projecting the benefits of secure, adaptive Internet Protocol virtual private networks to the furthest reaches of military operations. The foundation of KG-250, and much of our security business, is PSIAM—our Programmable, Scalable Information Assurance Model. PSIAM enables revolutionary DoD encryption architectures, displacing older, cumbersome, and inflexible hard-wired application specific integrated circuits (ASICs). PSIAM is winning favor as a key embedded security component for a number of major military programs. Leading defense primes rely on ViaSat as their security partner, as Boeing did this year when it selected ViaSat to provide security for Increment 2 of the Family of Advanced Beyond-line-of-sight Terminals (FAB-T), a radio system designed to enable military information exchange between ground, airborne, and space platforms.

CONSUMER NETWORKS

## Winning New Customers for Satellite Broadband

The success of WildBlue consumer broadband by satellite is now well established. Since service turn-on in 2005, subscriber totals have boomed to well over 200,000. On March 20, the new WildBlue-1 satellite went live, supporting even faster subscriber growth and tripling network capacity to 750,000. To accommodate the fast service uptake, ViaSat was selected to supply the next 500,000 Ka-band terminals to WildBlue. Together with deliveries to date, the total ViaSat terminal count is expected to exceed 750,000 in the next few years—making our DOCSIS® SurfBeam® product by far the single most popular 2-way satellite terminal product ever.







#### ENTERPRISE NETWORKS

## Future Arrives for Connected Restaurant Vision

Connect Your W@y is a Burger King® IT initiative aimed at decreasing restaurant operating expenses, and increasing guest satisfaction. The “BK® Connected Restaurant” will optimize communications for both fast credit, debit, and gift card transactions and provide high-capacity broadband business applications. As the service provider for the network, ViaSat Managed Broadband Services continues to work with Burger King to implement new enterprise applications and ensure maximum network reliability. Initially implemented in 760 corporate owned restaurants, the ViaSat network services are now growing to serve a number of franchise owners as well.



## MOBILITY

# A New Idea for New Mobile Connections

Mobile broadband data connectivity seems to be an irresistible market force. To date, no one has yet created the right formula of ubiquity, convenience, quality of service, and economics to capture a broad array of mobile platforms that range beyond the reach of conventional terrestrial networks. ViaSat's ArcLight spread spectrum network offers compelling advantages compared to FSS satellite, cellular Air to Ground (ATG) or Mobile Satellite Services (MSS) band alternatives. Ku-band spectrum is ubiquitous including ocean coverage, is much better at serving local congestion points (e.g., airports where dozens or hundreds of flights converge), supports true broadband rates, and is both economical and scalable. We've made steady progress serving business jets, emerging government applications, and more recently small maritime craft. Commercial airlines are considering proposals to restore in-flight broadband service using ArcLight, too.



» What we find most exciting are **the current prospects for sustained growth** that springs from areas we've been nurturing.

## FISCAL YEAR 2007

### Year in Review

#### MAY 2006

- » Delivered and commissioned the first two LinkStar® satellite communication system hubs based on the new, more efficient DVB-S2 global standard to an Internet service provider in New Zealand and a major stock exchange in China.

#### JUNE 2006

- » Acquired Enerdyne Technologies Inc., expanding ViaSat offerings in the Department of Defense (DoD) markets for persistent video surveillance and video data links.
- » Listed on the *Forbes* magazine "200 Best Small Companies" for 2006, the fifth time the company has made the list.

#### JULY 2006

- » Awarded new \$40.0 million contract for our Multifunctional Information Distribution System (MIDS) LVT (1) airborne and LVT (2) ground-based terminals.
- » Awarded a \$10 million contract from the National Security Agency (NSA) to implement Version 3 of the High Assurance Internet Protocol Encryptor Interoperability Specification (HAIPE IS) on ViaSat AltaSec® inline network encryptors.

#### OCTOBER 2006

- » Additional order from ARINC for airborne broadband communications terminals as ARINC announces sale of the 50th set of SKYLink<sup>SM</sup> avionics to launch customer Gulfstream Aerospace.

#### DECEMBER 2006

- » Received a contract increase in excess of \$20 million for additional encryption and security work in support of Boeing's Family of Beyond Line-of-Sight Terminals (FAB-T) program.
- » Incremental orders now totaling 2,000 modems for our MD-1366 Enhanced Bandwidth Efficient Modem (EBEM), the new DoD standard for high-speed satellite communications.

#### JANUARY 2007

- » Gained entry to the U.S. Navy Mobile User Objective System (MUOS) program, supplying communications modeling and simulation systems for the first MUOS terminal test sets.
- » Awarded additional orders for our LinkWay® mesh-connection VSATs from General Dynamics C4 Systems and TeleCommunication Systems, Inc. in support of the \$5 billion World-Wide Satellite Systems (WWSS) contract.

- » Announced the AN/PSC-14, the first ruggedized Broadband Global Area Network (BGAN) satellite terminal that integrates ViaSat AltaSec HAIPE Type 1 security.
- » Received funded development sub-contracts for the follow-on Force XXI Battle Command Brigade and Below-Blue Force Tracking (FBCB2-BFT) satellite network upgrade.

#### FEBRUARY 2007

- » Initiated a strategic partnership with Eutelsat Communications to jointly offer affordable, high-quality Ka-band satellite consumer broadband in Europe.
- » \$12 million order for Multifunctional Information Distribution System (MIDS) terminals for the government of Taiwan, the largest international order to date.
- » Follow-on order for another LinkStar® hub and 1,200 VSATs for the Phase 4 expansion of the e-Mexico national network.
- » Acquisition of Intelligent Compression Technologies, adding leading edge Web compression and acceleration technologies.

## LETTER TO SHAREHOLDERS

## Dear Fellow Shareholders,

This is a good moment to reflect on the state of our company—past accomplishments and the prospects for sustained growth. We're quite proud of our financial success. Fiscal year 2007 was the fourth consecutive year of record results in sales, new orders, earnings and earnings per share. The average compounded annual growth rate for these metrics has been very strong:

- » Revenues up 23% per year on average
- » GAAP net income up 32% per year on average
- » GAAP diluted EPS up 27% per year on average
- » New orders up 15% on average

gating relationships, or obtain crucial assets is a hurdle that even deep-pocketed competitors find challenging.

The proof, they say, is in the pudding. And, one of the most striking points to note over the past several years is that, despite the strong financial results, our competitive position in each of those growth areas is as strong, or stronger, than it was 5 years ago. This is unusual in technology markets where imitation of good ideas or profitable business models is not just sincere flattery, but a way of life.

While we are proud of our past, we understand value is created in the future. So, what

our current fiscal year 2008. A key supporting fact: MIDS LVT has been one of the most successful DoD acquisition initiatives ever—serving as a model for future procurements.

#### INFORMATION ASSURANCE PROGRAMS AND PRODUCTS.

ViaSat's IA program and product sales have grown steadily from virtually nothing five years ago. We've made progress in both stand-alone and embedded *Type 1* security products—approved by DoD for protecting classified communications. Our entry into this very exclusive group of defense companies bears out a fundamental shift in the competitive landscape in DoD security—increasing value associated with

## While we are proud of our past, we understand value is created in the future.

The earnings have fortified our balance sheet, too. We ended fiscal year 2007 with over \$100 million in cash, up from about \$19 million in fiscal year 2004. We attribute our success to carefully selecting attractive niches and developing, adapting, and shaping our competitive position over the years it takes for them to emerge and grow. Our steady growth correlates well with the expansion of MIDS LVT tactical data links, birth of the DoD Global Information Grid and its associated Information Assurance (IA) technology, and, of course, with the (literal) launch of the first ever Ka-band satellites purpose-built for broadband network access. While all our businesses play an important role in our long-term strategy, these three accounted for most of our recent growth. They share some very pertinent characteristics:

- » Alignment with powerful market forces in information technology that drive adoption (e.g., cost-effective remote or mobile access to public or private Internet Protocol (IP) data networks).
- » Network effects that reinforce the growth of our specific segments.
- » Very complex technology with formidable entry barriers that tend to increase as markets mature. Notably, the *time* to reproduce critical designs, establish

we find most exciting are the current prospects for sustained growth that spring from the areas we've been nurturing—but that haven't quite arrived yet. For the most part, these are extensions of businesses that have already been quite successful for us. We've been working on some of them for several years already, so in some cases we are aiming at deriving growth sooner rather than later. Here's a quick overview of some of those businesses and a measure of competitive context.

#### JOINT TACTICAL RADIO SYSTEM (JTRS).

JTRS has been around a while. In fact, several of the largest defense companies announced strategic wins several years ago. But their progress has been painfully slow and expensive and the DoD is now exploring alternative solutions. Our MIDS JTRS conversion program, in contrast, will almost certainly be first into production, even with the smallest budget of any major JTRS effort. Momentum is growing to develop new variants of MIDS-J to serve applications and platforms originally planned for other JTRS "clusters." We're aiming to make MIDS-J our largest-ever engineering development & production program—substantially greater than MIDS LVT (which has already generated over half a billion dollars in revenue since inception). If successful, initial steps would begin during

software and networking and diminishing value for the inflexible and cumbersome application specific integrated circuits (ASICs) that had previously defined competitive advantage. Our technical success in this area has opened doors to a number of exciting new areas for defense security, including space applications, digital media encryption, and a variety of security modernization programs. We are aiming for meaningful progress on one or more of these fronts during fiscal year 2008. One of the most exciting potential areas is to bring HAIPE technology into space—which would be our largest satellite on-board electronics program—as part of the Lockheed Martin TSAT team. The TSAT down-selection is also scheduled for fiscal year 2008.

**KA-BAND BROADBAND.** By the time you read this, our single largest Ka-band broadband customer, WildBlue Communications, will have significantly passed 200,000 subscribers. Early in FY 08, WildBlue ordered another half million subscriber terminals. ViaSat's SurfBeam product is the fastest growing, most popular single 2-way satellite terminal ever. Cumulative SurfBeam revenues are anticipated to eventually exceed a half billion dollars in total since inception. That success has opened doors to two adjacent



Richard A. Baldrige, President, COO (left) and  
Mark D. Dankberg, Chairman of the Board, CEO (right)

markets, each of which could be substantially larger than SurfBeam: a) international satellite operators and telecom companies seeking to introduce Ka-band broadband access into other geographic markets, and b) the opportunity to define a new Ka-band satellite system in the U.S. to expand the market pioneered by WildBlue's WB-1 and ANIK F-2 satellites. ViaSat has already announced a partnership with Eutelsat in Europe to leverage its existing Ka-band capacity and huge direct-to-home satellite TV audience. The FCC has granted ViaSat two U.S. Ka-band orbital slots. While new Ka-band satellites will not be in service before our fiscal year 2011, we anticipate executing new agreements during fiscal year 2008 that will pave the way to exciting growth.

**MOBILE BROADBAND AND MSS BAND MOBILITY.**

The abundance and price of Ku-band satellite spectrum confers compelling advantages in certain markets for mobile data connectivity and entertainment. ViaSat entered the market as the satellite modem supplier to Boeing's Connexion in-flight broadband service. Boeing exited the business in 2006, but ViaSat has enjoyed slow, steady, profitable growth in equipment and services for business jets as well as defense applications. We think this is a very attractive growth area and fiscal year 2008 will be a key indicator. There are a number of new initiatives in play, including a) restoration of in-flight commercial airline service, led by the former Connexion customers, b) key expansions of the defense market, and c) a new small vessel maritime service extension in partnership with KVH. Historically, ViaSat has not participated in the "traditional" satellite mobile markets using the Mobile Satellite Services (MSS) band. But we are engaged in several exciting initiatives that could propel real growth there, too. Last year we started on the Ground Based Beam Forming (GBBF) system for Boeing's MSV satellites. That's our single largest ever commercial development program—a telling indicator of the potential for this market. We've been leveraging our experience there to compete for potential new MSS networking system opportunities. Historically, most large scale MSS networks have built on GSM telephony

switches. Our IP core networking expertise, proven in the SurfBeam DOCSIS broadband program, coupled with ongoing terrestrial fixed/mobile convergence technology initiatives creates the potential for new MSS networking paradigms with game-changing performance, flexibility, and cost points. Also, we've gained valuable footholds in defense mobility, including a partnership with Inmarsat and Thrane & Thrane to introduce the first integrated Type 1 secure Inmarsat broadband terminal. During fiscal year 2008 we'll be building our prototype Blue Force Tracking system for the U.S. Army—addressing an identified market of several hundred thousand units.

It's a lot easier to predict the past than the future. Of course, we can't guarantee the success of all, or even any, of these new growth opportunities. But the foundation of past successes, with go-to-market strategies leveraging carefully crafted strategic competitive positions makes for exciting times indeed. It looks like the events of this current year could be an indication of several more years of sustained growth.

As always, I'd also like to use this opportunity to thank our employees for their outstanding performance and dedication, our customers for the opportunities you've given us, and our suppliers for their commitment and support.

Sincerely,

A handwritten signature in blue ink that reads "Mark D. Dankberg".

**Mark D. Dankberg**  
Chairman of the Board, CEO



## GOVERNMENT NETWORKS

## ViaSat Plays a Progressively More Vital Role in *Migrating DoD Communications to the Network Centric Environment*

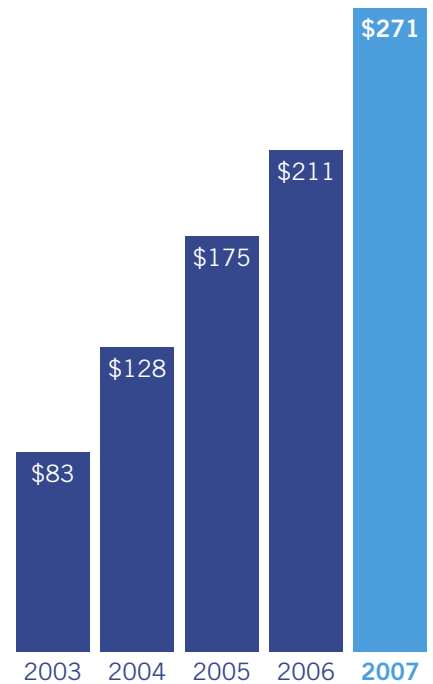
It's becoming clear that collecting, processing, and disseminating *information*, in all its various digital forms, is increasingly becoming a core competency of the Department of Defense (DoD). Information is the key to anticipating, evaluating, and responding in real-time to an incredibly broad range of threats—both actual and potential. Network centric warfare is the catch phrase for a fundamentally new, different, and rapidly evolving method of global defense communications. Network centric means dynamic, adaptive, broadband, ad hoc connections among U.S. and allied forces. It's increasingly machine to machine as well as person to person. These are revolutionary

concepts in a world that had previously emphasized structured, hierarchical, organizationally directed circuits that prioritized predictability over responsiveness to rapidly shifting threats. It's an incredible challenge to transition to such a complex network infrastructure supporting remote, highly mobile forces in unpredictable environments—without undermining the existing links. We have focused on emerging technology and market segments in Internet Protocol data links, High Assurance Internet Protocol Encryption (HAiPE®), programmable scalable information assurance architectures, and next-generation satellite and wireless networks.



» We are less oriented towards new “big ticket” programs and much more active in **adding new capabilities to existing ones.**

**GOVERNMENT REVENUES**  
dollars in millions



Transforming DoD communications into the network centric age is clearly one of the Pentagon's highest priorities. Information has been called a *force multiplier*—it makes existing forces far more effective. The primary target market for ViaSat network centric products involves upgrading existing forces and platforms with the communications links that create the force multiplier effect. That means, for instance, think F-16 and F-18

upgrades vs. new Joint Strike Fighters. Or outfitting the hundreds of existing naval ships with network centric capabilities vs. new aircraft carriers. This may not be the most glamorous, highest profile market segment, but it's certainly a large one. And, in an environment where defense acquisition budgets may be squeezed, this is an area that delivers the greatest returns on new procurement investments.





TACTICAL DATA LINKS

## Opening Several New Paths for Growth in the Next Few Years



Our Tactical Data Links business has achieved tremendous success in the last five years by growing in three directions: 1) increasing our share of the U.S. MIDS LVT market, 2) capturing the lead in the global F-16 MIDS market through strategic wins in the Netherlands, Turkey, and Taiwan, and 3) leading creation of the MIDS JTRS program to update MIDS to support the DoD software programmable, IP networking infrastructure. We've already had tremendous success in several ways: a) driving down the price of MIDS LVTs has stimulated demand

for Link 16 and future airborne networking capabilities, b) the MIDS JTRS program has moved ahead quickly and surely—passing much bigger, more expensive efforts to bring JTRS capabilities to existing platforms, and c) demonstrating the technical capabilities of MIDS JTRS to serve much broader JTRS markets. The result is the opening of several new paths for growth in the next few years. Our most obvious targets are these: 1) bringing MIDS JTRS into volume production for its basic host platforms, 2) adding new advanced Airborne Networking capabilities

that extend the reach into additional platforms (e.g., F-15), 3) adding other new wave-forms that serve a broader range of mission aircraft (e.g., tankers, transport, command and control), 4) adding new form factors that further enhance the market for MIDS JTRS products, and 5) migrating MIDS JTRS into international markets.







## INFORMATION ASSURANCE

# Leveraging Our Core IA Technology into Several Emerging Adjacent Markets

Building primarily around the introduction of the High Assurance Internet Protocol Encryption Interoperability Standard (HAIPE IS), ViaSat is successfully growing in market share for DoD Information Assurance systems. HAIPE is a cornerstone of bringing commercial Internet Protocol version 6 (IP v6) advanced networking features to the DoD Global Information Grid. Think of HAIPE as the DoD version of the commercial IPSec standard for creating and managing virtual private networks. We've been one of only three defense contractors bringing HAIPE devices to market and have a leading share of the

segment for HAIPE compliant 100 Mbps In-line Network Encryptors (INEs) with our very popular KG-250 family. We are now beginning to leverage our core IA technology into several emerging adjacent markets. The foundation of our KG-250 is a Programmable Scalable Information Assurance Model (PSIAM) architecture engineered using the latest generations of commercial programmable logic devices. PSIAM has proven to be far more powerful than conventional ASIC encryption devices, and has become the most advanced JTRS security architecture. It's also the foundation of the security module in the new

Boeing FAB-T increment 2 program. We're now leveraging PSIAM into the emerging market for Digital Media Encryption (sort of the defense equivalent of Digital Rights Management) and the broader "crypto modernization" market. PSIAM has also proven technically attractive in new space based security applications. Each of these markets creates opportunities to dramatically expand our IA business.







GOVERNMENT SATELLITE COMMUNICATIONS

## A Variety of Factors Are Converging to Catalyze a Resurgence in Our Products for MILSATCOM

Even though the military satellite communications (MILSATCOM) drove the early growth of ViaSat, that business has been eclipsed by the Tactical Data Links and Information Assurance areas. In the 1990s we captured and held the leading market share for military standard modems for the UHF Follow-On system. We still are the leading provider in that segment, but market saturation temporarily capped our growth. Now, we developed our EBEM modem for the Army, especially for application to the new Ka-band transponders on the forthcoming Wideband Global Satellite

(WGS) system. While 16 kbps was considered a “high-speed” mobile connection a few years ago, the need for megabit speeds is driving “Comm On The Move” applications of our commercial ArcLight broadband systems. Our Blue Force Tracking prototype contract applies ArcLight bandwidth efficiencies to situational awareness intended for hundreds of thousands of mobile platforms. Demand for our off-the-shelf LinkWay® VSAT products in the Joint Network Node program (itself a rapid commercial alternative to the longer term WIN-T program) is resulting from the

ramp up in military use of commercial Ku-band satellite capacity. Designated a *current force* modem, LinkWay is now a standard for bandwidth on demand point-to-point commercial satellite networks, creating more opportunities. And, the forthcoming MUOS and TSAT satellite constellations create substantial growth opportunities for new satellite terminal products.





#### EMERGING GROWTH OPPORTUNITIES

## Vibrant Markets Exist for New Applications of Our Technology

One of the most interesting growth opportunities in our defense segment involves extending our tactical data links to video connections for Tier II tactical unmanned aerial vehicles (UAVs). Our entry to this business came with the acquisition of Enerdyne, a small privately-held company in San Diego during the past fiscal year. Enerdyne has grown significantly while refining a strategy to expand our position in the burgeoning market for small UAVs. ViaSat brings other substantial resources to tactical UAVs, including antennas, security, microwave chips and modules, and high-speed modems. We have had our sights

set on these markets for a while and these technologies can augment an end-to-end video data control, transmission, management, and playback environment already adopted by several key user communities. Another exciting target is the military version of the enterprise-wide area application acceleration market. Mobile workers in any enterprise-wide environment need to access applications over wireless links (possibly including satellite) that are bandwidth constricted or have inherent data delays (latency). The problem is especially acute for secure private networks using IPSec or HAIPE, the

classified network equivalent. That's spawned a vibrant market for application acceleration hardware appliances and software clients. For instance, last year ViaSat introduced xPEP, a stand-alone Performance Enhancing Proxy appliance that speeds up Internet TCP/IP connections over secure satellite links. Recently, ViaSat acquired Intelligent Compression Technologies Inc., a small privately-held company in Quincy, MA, after evaluating software clients that speed up a broad range of web, office, and secure VPN applications over disadvantaged links. We are already at work introducing ICT products to our customers.

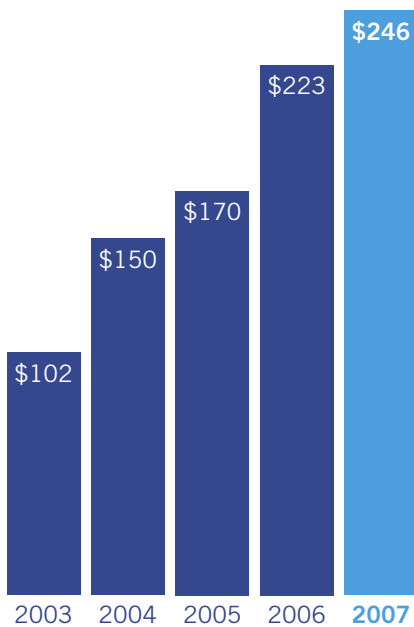




» Our commercial satellite ground systems find **applications across a wide spectrum of opportunities** as the world's telecoms infrastructure expands.

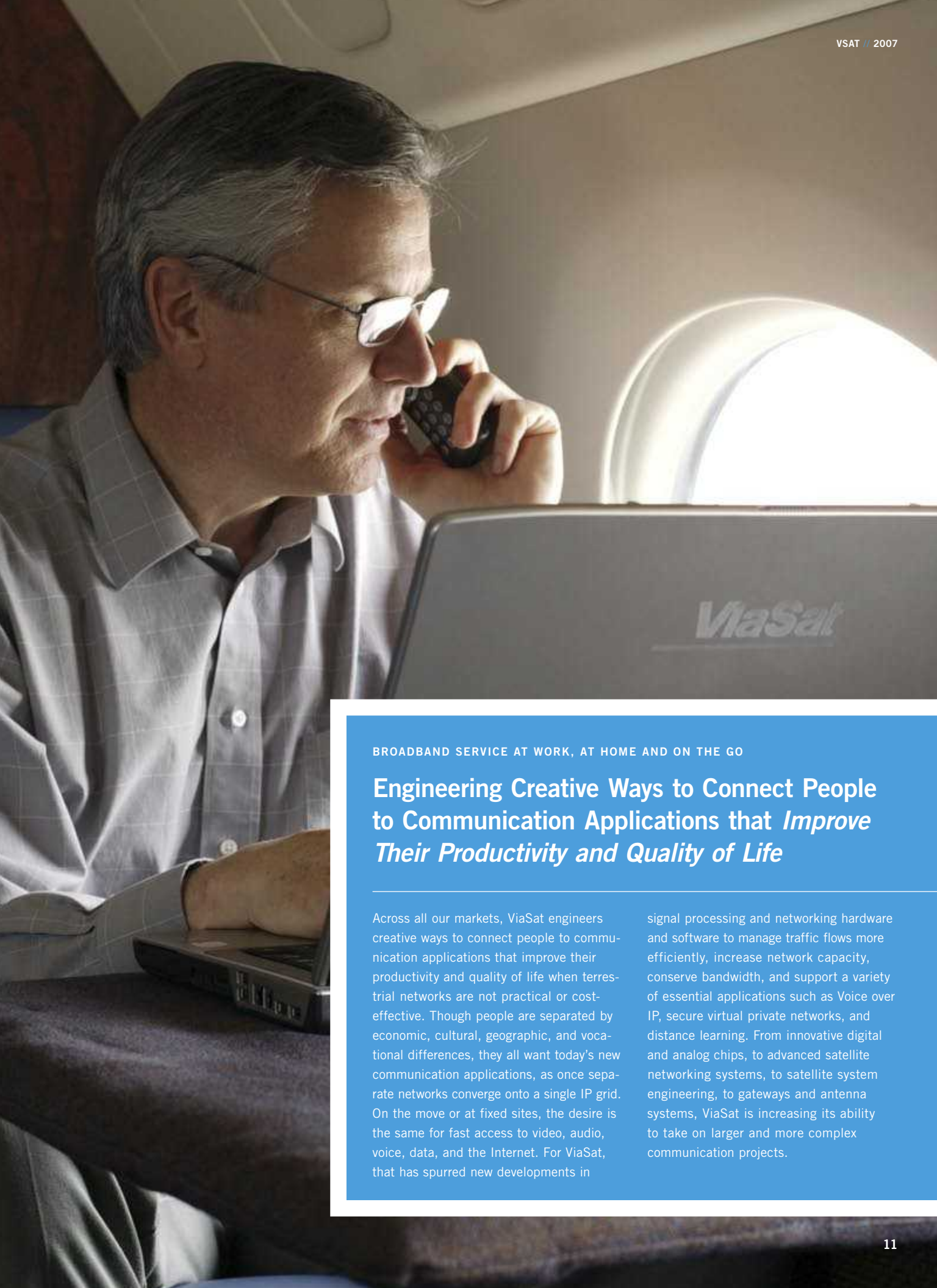
#### COMMERCIAL REVENUES

dollars in millions



A growing variety of ViaSat satellite terminals are used today in a very broad array of applications. In emerging markets, we provide satellite “backhaul” to connect very remote “islands” of cellular coverage to the rest of the public voice network. Tens of thousands of remote community centers and schools use ViaSat satellite networks to gain access to government services, health care or distant educational resources. And, in the developed nations of North America, Asia, the Middle East, and Europe, there is a

seemingly insatiable demand for more, better, and faster Internet connectivity. Our consumer and mobile satellite networks offer the economics, scalability, and consumer experience that these mass markets demand. By developing a broad portfolio of satellite ground systems, we are able to tap into a wide spectrum of opportunities as the world's telecoms infrastructure expands.



BROADBAND SERVICE AT WORK, AT HOME AND ON THE GO

## Engineering Creative Ways to Connect People to Communication Applications that *Improve Their Productivity and Quality of Life*

Across all our markets, ViaSat engineers creative ways to connect people to communication applications that improve their productivity and quality of life when terrestrial networks are not practical or cost-effective. Though people are separated by economic, cultural, geographic, and vocational differences, they all want today's new communication applications, as once separate networks converge onto a single IP grid. On the move or at fixed sites, the desire is the same for fast access to video, audio, voice, data, and the Internet. For ViaSat, that has spurred new developments in

signal processing and networking hardware and software to manage traffic flows more efficiently, increase network capacity, conserve bandwidth, and support a variety of essential applications such as Voice over IP, secure virtual private networks, and distance learning. From innovative digital and analog chips, to advanced satellite networking systems, to satellite system engineering, to gateways and antenna systems, ViaSat is increasing its ability to take on larger and more complex communication projects.



ENTERPRISE NETWORKS

## Our Engineering Team is Constantly Refining Our VSAT Systems for Greater Performance and Efficiency in Enterprise Satellite Networking

We pursue the enterprise market through internal product development, and also by teaming with other companies that bring us great, application-specific technology. Our engineering team is constantly refining our VSAT systems for greater performance and efficiency in enterprise satellite networking. Our service provider customers gained powerful Virtual Network Operator (VNO) functions so they can provision many virtual networks from a single hub. We recently acquired Intelligent Compression Technologies, developer of AcceleNet™. AcceleNet is a wide area network application acceleration

technology that substantially speeds delivery of common office applications, web services, and VPN over links with bandwidth bottlenecks and/or high latency. While AcceleNet has broad application to terrestrial dial up, mobile broadband wireless, and DSL networks, it also substantially boosts VSAT effectiveness. For those geographically or economically separated from the services they need, our VSAT group provides distance learning, e-government, health care, and Internet access networks, including recent expansions of eMexico and Enciclopedia in Mexico. Implementing new bandwidth-saving Digital



Video Broadcast S2 (DVB-S2) technology into our VSATs, and leveraging the economies of scale we've built with our consumer networking equipment, makes it even more affordable for governments to fund these critical projects. Also, our Managed Broadband Services group offers turn-key satellite service to leading brands such as Burger King, but also includes terrestrial alternatives for locations that are better served by that choice.







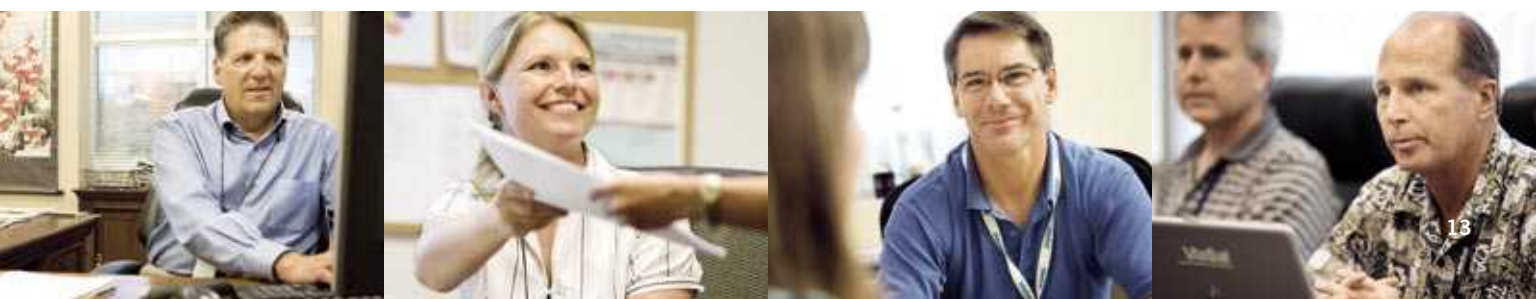
## MOBILE NETWORKS

# Renewed Interest by Commercial Airlines, as Well as Application to Trains, Seagoing Vessels—Even Automobiles—Has Us Optimistic About Expansion in This Market

People constantly want access to email, the Internet, and on-line entertainment no matter where they are—including in the air, at sea, and on rapid transit. Ubiquitous mobile broadband isn't quite here yet, though there are a number of alternative technologies vying for acceptance. ViaSat's ArcLight spread spectrum satellite modem technology is one of the few contenders currently proving itself on land, sea and in the air every day. ArcLight technology enables relatively small, "undersized" satellite antennas access to plentiful,

inexpensive Fixed Satellite Services (FSS) bandwidth on platforms that previously could only use much narrower slivers of mobile satellite or terrestrial bandwidth. ArcLight-enabled SKYLink<sup>SM</sup> broadband service has become a popular option on Gulfstream business jets. Interest from commercial airlines, as well as application to trains, seagoing vessels—even automobiles—has us optimistic about the potential for expanding this market. In addition, a new group of mobile satellite system (MSS) operators has won the

right to combine mobile satellite communications with "ancillary terrestrial component" into a hybrid network offering the best of satellite and cellular. Our funded development for Boeing and MSS operator Mobile Satellite Ventures (MSV) continues and we believe our track record as the leading provider of terminals for the new generation of broadband by satellite systems positions us favorably for an expanded role in future MSS ground systems.







CONSUMER NETWORKS

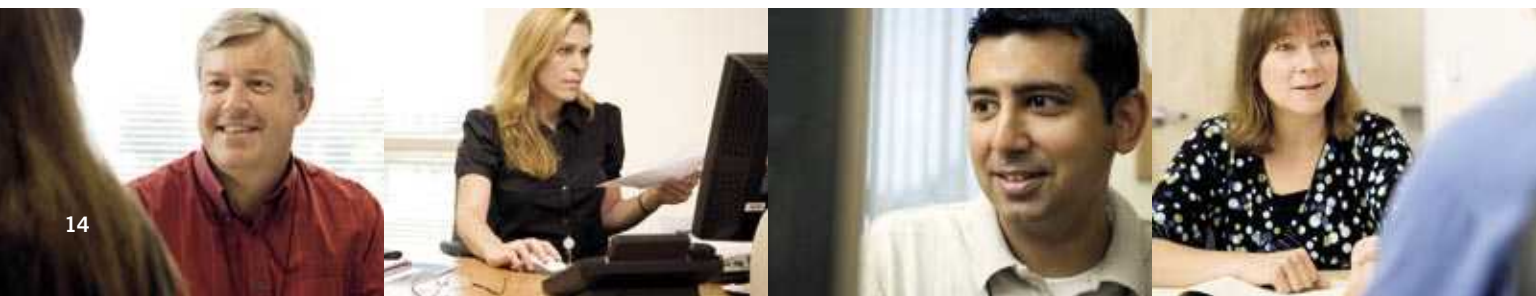
## ViaSat Consumer Networking Systems Are Helping Broadband Industry Players Compete and Win



Our leadership in next generation satellite broadband systems is illustrated by the tremendous success of the WildBlue consumer Internet service. During the past fiscal year, WildBlue forecasts for growth resulted in a new order for 500,000 ViaSat consumer broadband terminals—the single largest order for VSAT terminals ever. The success validates what we believe are the factors in creating successful consumer broadband satellite

services: 1) engineering complete satellite space and ground systems to drive down the cost of bandwidth—delivering ever more digital bits at declining prices, 2) exploiting advances in digital signal processing technology and chip cost reductions to build highly sophisticated, yet affordable, consumer satellite terminals, and 3) maximizing market appeal by enabling satellite service speeds to increase faster than alternative technologies can achieve in areas outside

core urban and suburban population centers. We also see prospects for exciting growth in transferring this model to other geographic regions. An example is our agreement with Eutelsat to develop and offer Ka-band satellite services to underserved markets in Europe.







ANTENNA SYSTEMS

## This Industry Renewal Creates Great Potential Opportunities for Our Well Proven Satellite Systems

A surge in demand for earth imagery is helping fuel growing revenues and bookings for our Antenna Systems group. Led by U.S. firms DigitalGlobe and ViaSat customer GeoEye Inc., companies are beginning to orbit a new generation of high-resolution satellites that require new systems to handle the increased data download volumes. A growing number of international space observation companies are entering the market as well, representing South Korea, Russia, Taiwan, Germany, Spain, and the UK. This industry renewal creates great potential opportunities for our well proven

satellite systems. With more than four decades of experience in antenna system development, ViaSat has refined its product offerings to a set of system building blocks. This approach gives customers the opportunity to build a customized, complete antenna system that can be rapidly delivered and deployed. In addition to high data rate imagery download (remote sensing), applications include broadcasting, military communications, gateways, teleports, transportable antennas, and telemetry, tracking and control. Alongside our external customers, we are finding a growing

number of internal applications of our antenna expertise across many of our business areas. Combined with RF technology from US Monolithics, we're beginning multiple developments to exploit our Antenna Systems expertise to add value to our government and commercial satcom, tactical data link, and video data link product lines.





## INSIDE VIASAT

# Investing in Technology and People

ViaSat's work force has grown to close to 1,500 people. Our single largest location is still our headquarters in Carlsbad, CA—but through expansion and acquisitions we have sites in half a dozen states and several countries around the world. Still, we constantly strive to preserve and enhance the work environment and corporate culture that has been so much a part of our success. ViaSat is essentially a technology company and that fact is woven into our very fabric. In many ways, there are similarities to top flight university environments. Our culture is highly informal and collegial. "Work hard and play hard" may be a trite slogan, but it seems to suit us. We support a broad range of "intra-mural" athletics and many sites have a variety of facilities for recreation. Above all, technical competence is highly prized and

respected—no matter where it resides in the organization. Individuals have a lot of influence over their own career interests and can choose to focus in particular disciplines, explore a broad range of areas, or evolve into (and out of) related management or market development career paths.

We're proud of our track record for recruiting the most talented technical professionals in the industry. We seek out individuals who have demonstrated a strong commitment to excellence in their personal achievements and whose dedication to lifelong learning and professional growth shows no signs of slowing down. Two key elements that will continue to fuel our growth strategy are our relationships with top universities and our expanding college recruitment program. We

are increasing our involvement in university research and cooperative programs. To help keep the momentum going once at ViaSat, our Education and Development staff works closely with our Engineering department to bring hundreds of educational opportunities onsite each year, including full credit university courses and other programs taught by internal experts, professors and educators. In addition to our onsite opportunities, we also make a sizeable investment each year in tuition reimbursement, so that employees that wish to further their education with advanced degrees are able to do so.



FISCAL YEAR 2007

## Financial Performance

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## Selected Financial Data

The following table provides our selected financial information for us for each of the fiscal years in the five-year period ended March 30, 2007. The data as of and for each of the fiscal years in the five-year period ended March 30, 2007 have been derived from our audited financial statements and include, in the opinion of our management, all adjustments necessary to state fairly the data for those periods. You should consider the financial statement data provided below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes which are included elsewhere in this annual report. All amounts shown are in thousands, except per share data.

Years Ended	March 30, 2007	March 31, 2006	April 1, 2005	April 2, 2004	March 31, 2003
<b>STATEMENT OF INCOME DATA:</b>					
Revenues	<b>\$516,566</b>	\$433,823	\$345,939	\$278,579	\$185,022
Operating expenses:					
Cost of revenues	<b>380,092</b>	325,271	262,260	206,327	142,908
Selling, general and administrative	<b>69,896</b>	57,059	48,631	38,800	37,858
Independent research and development	<b>21,631</b>	15,757	8,082	9,960	16,048
Amortization of intangible assets	<b>9,502</b>	6,806	6,642	7,841	8,448
Income (loss) from operations	<b>35,445</b>	28,930	20,324	15,651	(20,240)
Interest income (expense)	<b>1,741</b>	(200)	304	(346)	(740)
Income (loss) before income taxes and minority interest	<b>37,186</b>	28,730	20,628	15,305	(20,980)
Provision (benefit) for income taxes	<b>6,755</b>	5,105	1,246	2,015	(11,395)
Minority interest in net earnings of subsidiary, net of tax	<b>265</b>	110	115	122	47
Net income (loss)	<b>\$ 30,166</b>	\$ 23,515	\$ 19,267	\$ 13,168	\$ (9,632)
Basic net income (loss) per share	<b>\$ 1.06</b>	\$ 0.87	\$ 0.72	\$ 0.50	\$ (0.37)
Diluted net income (loss) per share	<b>\$ 0.98</b>	\$ 0.81	\$ 0.68	\$ 0.48	\$ (0.37)
Shares used in computing basic net income (loss) per share	<b>28,589</b>	27,133	26,749	26,257	26,016
Shares used in computing diluted net income (loss) per share	<b>30,893</b>	28,857	28,147	27,558	26,016
<b>BALANCE SHEET DATA:</b>					
Cash, cash equivalents and short-term investments	<b>\$103,392</b>	\$ 36,887	\$ 14,741	\$ 18,670	\$ 4,269
Working capital	<b>187,406</b>	152,907	138,859	107,846	74,276
Total assets	<b>483,939</b>	365,069	301,825	272,682	237,155
Other liabilities	<b>13,273</b>	7,625	3,911	2,944	1,847
Total stockholders' equity	<b>348,795</b>	263,298	226,283	202,475	183,887

Net income for fiscal year 2007 included stock-based compensation expense under Statement of Financial Accounting Standards No. 123 (SFAS 123R), "Share-Based Payment" adopted on April 1, 2006 of approximately \$5.0 million.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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## GENERAL

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

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

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

- Data links, including MIDS terminals, MIDS JTRS development and unmanned vehicle technologies,
- Information security and assurance products and services, which enable military and government users to communicate secure information over secure and non-secure networks, and
- Government satellite communication systems and products, including UHF DAMA satellite communications products consisting of modems, terminals and network control systems, and innovative broadband solutions to government customers to increase available bandwidth using existing satellite capacity.

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

The commercial segment comprises two business product groups: satellite networks and antenna systems. Our commercial business offers an end-to-end capability to provide customers with a broad range of satellite communication and other wireless communications equipment solutions including:

- Consumer broadband products and solutions to customers based on DOCSIS or DVB-RCS-based technology,
- Mobile broadband products and systems for in-flight, maritime and ground mobile broadband applications,
- Enterprise VSAT networks products and services,
- Satellite networking systems design and technology development, and
- Antenna systems for commercial and defense applications and customers.

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

In recent years approximately one-half of our revenues have been generated from satellite based communications products and systems solutions to address commercial market needs. Our commercial business accounted for approximately 48% of our revenues in fiscal year 2007, 53% of our revenues in fiscal year 2006 and 51% of our revenues in fiscal year 2005. To date, our principal commercial offerings include satellite communication terminals, known as Very Small Aperture Terminals (VSATs), broadband internet equipment over satellite, network control systems, network integration services, network operation services, satellite system design gateway infrastructure, antenna systems and other satellite ground stations. In addition, based on our advanced satellite technology and systems integration experience, we have developed products addressing five key broadband markets: enterprise, consumer, in-flight, maritime and ground mobile applications.

To date, our ability to grow and maintain our revenues has depended on our ability to identify and target markets where the customer places a high priority on the technology 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 awards in these markets.

Our products are provided primarily through three types of contracts: fixed-price, time-and-materials and cost-reimbursement contracts. Historically, approximately 84% for fiscal year 2007 and 88% for fiscal years 2006 and 2005 of our revenues were derived from fixed-price contracts, which require us to provide products and services under a contract at a stipulated price. The remainder of our annual revenue was derived from cost-reimbursement contracts, under which we are reimbursed for all actual costs incurred in performing the contract to the extent such costs are within the contract ceiling and allowable under the terms of the contract, plus a fee or profit, and from time-and-materials



contracts which reimburse us for the number of labor hours expended at an established hourly rate negotiated in the contract, plus the cost of materials utilized in providing such products or services.

Historically, a significant portion of our revenues are from contracts for the research and development of products. The research and development efforts are conducted in direct response to the customer's specific requirements and, accordingly, expenditures related to such efforts are included in cost of sales when incurred and the related funding (which includes a profit component) is included in revenues. Revenues for our funded research and development were approximately \$122.9 million or 24% of our total revenues during fiscal year 2007, \$109.5 million or 25% of our total revenues during fiscal year 2006, and \$105.7 million or 31% of our total revenues during fiscal year 2005.

We also incur independent research and development expenses, which are not directly funded by a third party. Independent research and development expenses consist primarily of salaries and other personnel-related expenses, supplies, prototype materials, testing and certification related to research and development programs. Independent research and development expenses were approximately 4% of revenues during fiscal year 2007 and 2006 and 2% of revenues during fiscal year 2005. As a government contractor, we are able to recover a portion of our independent research and development expenses pursuant to our government contracts.

#### **EXECUTIVE SUMMARY**

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

Our annual awards have progressively grown from approximately \$200 million to approximately \$500 million over the past five years. The awards growth each of the past five years and the conversion of certain of the awards has contributed to our revenue growth.

There are a number of large new business opportunities we are pursuing in fiscal year 2008. In the government segment, the opportunities include the MIDS LVT Lot VIII production order, international MIDS LVT orders, new MIDS joint tactical radio system development and pre-production contracts, additional funding for current information assurance projects, new information assurance contracts using our HAIPE technology, and orders for our KG-250 and KG-255 products. In our commercial segment, the opportunities include new production orders for existing and new consumer and mobile broadband systems and equipment, and further penetration in the North American market for enterprise VSAT and antenna systems. The probability and timing of these orders is not entirely predictable, so our revenue may vary somewhat from quarter-to-quarter or even year-to-year.

Generating positive cash flows from operating activities was a financial priority for us in fiscal years 2007 and 2006 and will continue to be a focus in fiscal year 2008. Key areas we monitor to achieve cash flow objectives include: generating income from operations, reducing our unbilled accounts receivable by monitoring program performance, reducing the cycle time for amounts billed to customers and their related collection, and reducing inventory on hand as a percentage of sales.

We expect that our capital needs for fiscal year 2008 will be similar to fiscal year 2007. In fiscal years 2006 and 2007, we initiated and completed facility expansion and modernization projects in Carlsbad, California and Gilbert, Arizona, as well as expanded our production test equipment and lab development equipment and information technology to meet customer program requirements and growth forecasts. In fiscal year 2008, we have additional facility projects planned in Carlsbad, California, as well as production test equipment and information technology projects to support our growth needs. Our facility needs have normally been met with long-term lease agreements, but we do anticipate additional tenant improvements over the next two fiscal years associated with our expansion. Additionally, as our employee base increases, the need for additional computers and other equipment will also increase.

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

On December 1, 2005, we completed the acquisition of all of the outstanding capital stock of Efficient Channel Coding (ECC), a privately-held designer and supplier of broadband communication integrated circuits and satellite communication systems. The initial purchase price of approximately \$16.6 million was comprised primarily of \$15.8 million in cash consideration, \$227,000 in direct acquisition costs and \$525,000 related to the fair value of options exchanged at the closing date. The \$16.1 million of cash consideration less cash acquired of approximately \$70,000 resulted in a net cash outlay of approximately \$16.0 million. Under the terms of the ECC acquisition agreement up to an additional \$9.0 million in consideration is payable in cash and/or stock at our option on or prior to the eighteen (18) month anniversary of the closing date.

based on ECC meeting certain financial performance targets. On May 23, 2006, we agreed to pay the maximum additional consideration amount to the former ECC stockholders in the amount of \$9.0 million. The \$9.0 million is payable in cash or stock, at our option, in May 2007. Additional purchase price consideration of \$9.0 million was recorded as additional Satellite Networks goodwill in the first quarter of fiscal year 2007.

We have recorded \$9.8 million in identifiable intangible assets and \$17.6 million in goodwill based on the fair values and the final allocation of purchase price of the acquired assets and assumed liabilities. The consolidated financial statements include the operating results of ECC from the date of acquisition in our Satellite Networks product line in the commercial segment.

We believe the acquisition of ECC was beneficial to ViaSat because of ECC's complimentary technologies, namely DVB-S2 and ASIC design capabilities, customers and highly skilled workforce. The potential opportunities these benefits provide to our Satellite Networks product group in our commercial segment were among the factors that contributed to a purchase price resulting in the recognition of goodwill. The intangible assets and goodwill recognized will be deductible for federal income tax purposes.

On June 20, 2006, we completed the acquisition of all of the outstanding capital stock of Enerdyne Technologies (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 our 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 former Enerdyne stockholders and the transaction expenses paid less cash acquired of \$900,000 resulted in a net cash outlay of approximately \$281,000. At June 20, 2006, under the terms of the Enerdyne acquisition agreement, up to an additional \$8.7 million in consideration was payable in cash and stock based on Enerdyne achieving certain earnings performance in any fiscal year up to and including our 2010 fiscal year (as well as projected earnings performance for the one-year period thereafter). No portion of the additional consideration was guaranteed. As of March 30, 2007, Enerdyne achieved financial results entitling the former stockholders of Enerdyne to \$5.9 million of additional consideration. Accordingly, on May 3, 2007, we issued 170,763 shares of common stock and \$260,000 in cash to the former Enerdyne stockholders in full settlement of the payable and of all additional consideration provisions. Additional purchase price consideration of \$5.9 million was recorded as additional government segment goodwill in the fourth quarter of fiscal year 2007. During March 2007, a \$1.5 million adjustment reducing goodwill was made to the final purchase price allocation for Enerdyne as certain tax matters were resolved regarding utilization of Enerdyne's net operating losses (NOL) as tax deductions in the future resulting in deferred tax asset being recorded.

At June 20, 2006, we recorded \$6.6 million in identifiable intangible assets and \$11.7 million in goodwill based on the fair values and the final allocation of purchase price of the acquired assets and assumed liabilities of Enerdyne. In March 2007, goodwill was subsequently increased to \$16.1 million as a result of the additional consideration and adjustment to the final purchase price allocation for certain tax matters. The consolidated financial statements include the operating results of Enerdyne from the date of acquisition in our unmanned aerial vehicle (UAV) products in the government segment.

We believe the acquisition of Enerdyne is complementary to us 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 our UAV products 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.

On February 16, 2007, we completed the acquisition of all of the outstanding capital stock of Intelligent Compression Technologies (ICT), a privately-held provider to corporations, internet service providers (ISPs), and satellite/wireless carriers of data compression techniques, advanced transport protocols, and application optimization to increase the speeds of either narrowband or broadband terrestrial, wireless, or satellite services. The initial purchase price of approximately \$20.7 million was comprised primarily of \$13.3 million related to the fair value of 414,073 shares of our common stock issued at the closing date, \$7.2 million in cash consideration, and approximately \$200,000 in direct acquisition costs. The \$7.2 million in cash consideration paid to the former ICT stockholders plus approximately \$200,000 in direct acquisition costs less cash acquired of \$32,000 resulted in a net cash outlay of approximately \$7.3 million. Under the terms of the ICT acquisition agreement, up to an additional \$34.3 million in additional consideration is payable in cash and/or stock, at our option, based on ICT achieving certain earnings performance over certain 12-month periods during the two years following closing (as well as projected earnings performance for the one-year period thereafter). No portion of the additional consideration is guaranteed. The additional consideration, if earned, is payable after the 12-month period in which ICT achieves the specified earnings performance and will be recorded as additional purchase price.

At February 16, 2007, we recorded \$12.6 million in identifiable intangible assets and \$12.6 million in goodwill based on the fair values and the preliminary allocation of purchase price of the acquired assets and assumed liabilities. The consolidated financial statements include the operating results of ICT from the date of acquisition in our Satellite Networks product line in the commercial segment.

The acquisition of ICT is beneficial to ViaSat because it adds leading edge compression and wide area network acceleration technologies. The ICT Accelenet family of products speeds web browsing and accelerates leading office applications, while simultaneously reducing network congestion. These benefits may extend to our consumer, enterprise, or government customers. The potential opportunities these benefits provide to our products 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 ICT 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 even the best estimates routinely require adjustment.

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

The percentage-of-completion method of accounting requires management to estimate the profit margin for each individual contract and to apply that profit margin on a uniform basis as sales are recorded under the contract. The estimation of profit margins requires management to make projections of the total sales to be generated and the total costs that will be incurred under a contract. These projections require management to make numerous assumptions and estimates relating to items such as the complexity of design and related development costs, performance of subcontractors, availability and cost of materials, labor productivity and cost, overhead and capital costs, and manufacturing efficiency. These contracts often include purchase options for additional quantities and customer change orders for additional or revised product functionality. Purchase options and change orders are accounted for either as an integral part of the original contract or separately depending upon the nature and value of the item. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. In the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, we recorded losses of approximately \$4.5 million, \$5.1 million, and \$5.7 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.

We believe that we have established appropriate systems and processes to enable us to reasonably estimate future cost on our programs through regular quarterly evaluations of contract costs, scheduling and technical matters by business unit personnel and management. Historically, in the aggregate, we have 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 our results of operations. For example, a one percent variance in our future cost estimates on open fixed-price contracts as of March 30, 2007 would change our pre-tax income by approximately \$303,000.

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



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

**ACCOUNTING FOR STOCK-BASED COMPENSATION.** At March 30, 2007, we had stock-based compensation plans described in Note 5 to the Consolidated Financial Statements. We grant options to purchase our common stock and award restricted stock units 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 our employee stock purchase plan. The benefits provided under these plans are stock-based payments subject to the provisions of revised Statement of Financial Accounting Standards No. 123 (SFAS 123R), "Share-Based Payment." Effective April 1, 2006, we use the fair value method to apply the provisions of SFAS 123R with a modified prospective application which provides for certain changes to the method for estimating the value of stock-based compensation. The valuation provisions of SFAS 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. Stock-based compensation expense recognized under SFAS 123R for the fiscal year ended March 30, 2007 was \$1.9 million, \$1.2 million and \$782,000 for employee stock options (including stock options assumed in business combination), restricted stock units and the employee stock purchase plan, respectively. At March 30, 2007, there was \$10.1 million, \$9.0 million and \$169,000 remaining in unrecognized estimated compensation expense related to non-vested stock options, restricted stock units and the employee stock purchase plan, respectively, which is expected to be recognized over a weighted average period of 3.1 years, 3.5 years and less than six months, respectively.

Upon adoption of SFAS 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 SFAS 123R, the value of all stock-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 SFAS 123. The determination of the fair value of stock-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 SFAS 123R in future periods, the compensation expense that we record under SFAS 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 stock-based compensation under SFAS 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 stock-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 stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-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 stock-based payments in the future. Certain stock-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 stock-based awards is determined in accordance with SFAS 123R and the SEC'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 stock-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 SFAS 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 stock-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 stock-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.

Our 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 is 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. We expect 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 us, consistent with the guidance in SAB 107. The weighted average expected life of employee stock options granted during the fiscal year ended March 30, 2007 derived from the "simplified" method was 4.5 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.

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

On December 1, 2005, as a part of the acquisition of all of the outstanding capital stock of ECC, we issued 23,424 unvested stock options under the Efficient Channel Coding, Inc. 2000 Long Term Incentive Plan assumed under the terms of the acquisition agreement. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, we recorded \$291,000 in deferred stock-based compensation which is being amortized to compensation expense over the remaining service period. We amortized \$95,000 to compensation expense related to this deferred stock-based compensation through March 31, 2006.

**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, we and our outside legal counsel determined that there was no evidence of a pattern of intentionally misdating stock option grants to achieve an accounting result, or that any of our officers, directors, or senior executives 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 was not material to our expected fiscal year 2007 net income. This non-cash compensation expense adjustment 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 adjustment.

**Option acceleration.** On March 30, 2006, our Board of Directors accelerated the vesting of certain unvested employee stock options previously awarded to our employees under our equity participation plan. Stock options held by our non-employee directors were not accelerated. Options to purchase approximately 1.5 million shares of common stock (representing approximately 26% of our total current outstanding options) were subject to this acceleration. All of the accelerated options were "in-the-money" and had exercise prices ranging from \$4.70 to \$26.94. All other terms and conditions applicable to such options, including the exercise prices, remain unchanged. Because the exercise price of all options subject to acceleration was lower than the fair market value of our underlying common stock on the date of acceleration, we recorded \$1.5 million in compensation expense. The decision to accelerate vesting of these options was made primarily to eliminate the recognition of the related compensation expense in our future consolidated financial statements with respect to these unvested stock options upon adopting SFAS 123R.

We recognized a pre-tax charge for estimated compensation expense of approximately \$1.5 million in the fiscal fourth quarter ended March 31, 2006 after considering expected employee turnover rates to reflect, absent the acceleration, the “in-the-money” value of accelerated stock options we estimate would have been forfeited (unvested) pursuant to their original terms.

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

**ALLOWANCE FOR DOUBTFUL ACCOUNTS.** We make estimates of the collectibility of our accounts receivable based on historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Historically, our bad debts have been minimal; a contributing factor to this is that a significant portion of our sales has been to the U.S. government. More recently, commercial customers comprise a larger part of our revenues. Our accounts receivable balance was \$139.8 million, net of allowance for doubtful accounts of \$1.2 million, as of March 30, 2007 and our accounts receivable 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 SFAS No. 142, “Goodwill and Other Intangible Assets.” The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the reporting units that have goodwill assigned to them. The only reporting units which have goodwill assigned to them are the businesses which were acquired and have been included in our commercial segment. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the reporting unit used in the first step, and is compared to its carrying value. The shortfall of the value below carrying value represents the amount of goodwill impairment. We test goodwill for impairment during the fourth quarter every fiscal year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist.

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

**IMPAIRMENT OF LONG-LIVED ASSETS (PROPERTY AND EQUIPMENT AND OTHER INTANGIBLE ASSETS).** In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” 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. We maintained a valuation allowance of \$403,000 and \$303,000 against deferred tax assets at March 30, 2007 and March 31, 2006, respectively, relating to research credit carryforwards available to reduce state income taxes.

**DERIVATIVES.** We enter into foreign currency forward and option contracts to hedge certain forecasted foreign currency transactions. Gains and losses arising from foreign currency forward and option contracts not designated as hedging instruments are recorded in interest income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts that are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as gains



(losses) on derivative instruments until the underlying transaction affects our earnings. We had no foreign currency forward contracts outstanding at March 30, 2007. The fair value of our foreign currency forward contracts was a liability of \$183,000 at March 31, 2006 and we had \$4.1 million of notional value of foreign currency forward contracts outstanding at March 31, 2006.

**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.

## RESULTS OF OPERATIONS

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

Years Ended	March 30, 2007	March 31, 2006	April 1, 2005
Revenues	100.0%	100.0%	100.0%
Operating expenses:			
Cost of revenues	73.6	75.0	75.8
Selling, general and administrative	13.5	13.1	14.1
Independent research and development	4.2	3.6	2.3
Amortization of intangible assets	1.8	1.6	1.9
Income from operations	6.9	6.7	5.9
Income before income taxes	7.2	6.6	6.0
Provision for income taxes	1.3	1.2	0.4
Net income	5.8	5.4	5.6

## FISCAL YEAR 2007 COMPARED TO FISCAL YEAR 2006

### Revenues.

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase	Percentage Increase
Revenues	\$516.6	\$433.8	\$82.7	19.1%

The increase in revenues was due to the higher customer awards received in the past two fiscal years consisting of \$525.0 million in fiscal year 2007 and \$443.7 million in fiscal year 2006 and the conversion of certain of those awards into revenues. Increased revenues were experienced in both our government and commercial segments. Growth was primarily derived from increased sales of our tactical data link products of approximately \$21.0 million, certain government information assurance products of approximately \$27.2 million, consumer broadband sales of approximately \$26.3 million and the addition of \$9.1 million in sales of video data link systems from the acquisition of Enerdyne in our fiscal second quarter, offset by certain mobile broadband product sales decreasing by approximately \$9.8 million.

### Cost of Revenues.

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase	Percentage Increase
Cost of revenues	\$380.1	\$325.3	\$54.8	16.9%
Percentage of revenues	73.6%	75.0%		

The increase in cost of revenues from \$325.3 million to \$380.1 million is primarily due to our increased revenues. However, we did experience a decrease in the cost of revenues as a percent of revenues from 75.0% in the prior year to 73.6% in the current year. This improvement was primarily due to product cost reductions in our consumer broadband products, which yielded cost of revenues decreases of 7.1 percentage points for the fiscal year 2007 compared to the fiscal year 2006. These cost reductions were offset by overall product cost of revenue increases

of approximately 4.0 percentage points in our government segment and approximately 6.4 percentage points from our antenna systems products. Cost of revenues for the fiscal year 2007 included approximately \$1.8 million in stock-based compensation expense and \$701,000 related to the accelerated vesting of certain employee stock options in fiscal year 2006. Cost of revenues 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.**

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase	Percentage Increase
Selling, general and administrative	\$69.9	\$57.1	\$12.8	22.5%
Percentage of revenues	13.5%	13.1%		

The increase in selling, general and administrative (SG&A) expenses year over year is primarily attributable to higher selling and marketing costs from our growth in revenues and acquisitions of approximately \$3.0 million, higher support and facility costs related to our expanded facilities of approximately \$6.9 million and approximately \$2.9 million in stock-based compensation expense recorded in fiscal year 2007. The reduction in percentage is due to the lower support costs required to operate the company as it grows.

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

**Independent Research and Development.**

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase	Percentage Increase
Independent research and development	\$21.6	\$15.8	\$ 5.9	37.3%
Percentage of revenues	4.2%	3.6%		

The increase in independent research and development (IR&D) expenses reflects year over year increases in the government segment of \$3.4 million and the commercial segment of \$2.5 million. The higher IR&D expenses are principally for the development of new information assurance, military satellite communication and next-generation VSAT equipment, and 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 original 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 expected amortization expense of long-lived intangible assets for the next five fiscal years is as follows:

	Amortization (In thousands)
Expected for fiscal year 2008	\$ 9,150
Expected for fiscal year 2009	8,403
Expected for fiscal year 2010	5,179
Expected for fiscal year 2011	4,669
Expected for fiscal year 2012	3,569
Thereafter	2,631
	<b>\$33,601</b>

**Interest Income.** Interest income increased to \$2.2 million for fiscal year 2007 from \$248,000 for fiscal year 2006 due to higher average invested cash balances year over year and higher interest rates earned.

**Interest Expense.** Interest expense was the same, \$448,000, for fiscal years 2007 and 2006 primarily due to commitment fees on our line of credit availability which remained the same year over year. At March 30, 2007 and March 31, 2006, there were no outstanding borrowings under our line of credit.

**Provision for Income Taxes.** Our effective tax rate was 18.2% in fiscal year 2007 compared to 17.8% in fiscal year 2006. Our effective tax rate of 17.8% for fiscal year 2006 reflects the expiration of the federal research tax credit at December 31, 2005 and our effective tax rate of 18.2% for fiscal 2007 reflects the retroactive reinstatement of the federal research tax credit. The higher tax rate reflects an increase to earnings before tax from fiscal year 2006 to fiscal year 2007 which was greater than the increase in research tax credits, even with the retroactive restatement of the federal research tax credit. Our effective rate differs from the statutory federal rate primarily due to research tax credits and state income taxes.

## OUR SEGMENT RESULTS FISCAL YEAR 2007 COMPARED TO FISCAL YEAR 2006

### GOVERNMENT SEGMENT

#### Revenues.

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase	Percentage Increase
Revenues	\$270.7	\$210.6	\$60.1	28.5%

The increase in government segment revenues related primarily to a higher beginning backlog and the receipt of \$301.8 million in awards during fiscal year 2007. The increased sales were principally from higher year over year tactical data link products sales, principally MIDS JTRS development program revenue, of approximately \$21.0 million, government information assurance of approximately \$27.2 million, as well as the acquisition of Enerdyne in our fiscal second quarter contributing approximately \$9.1 million from sales of video data link products.

#### Segment Operating Profit.

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar (Decrease)	Percentage (Decrease)
Segment operating profit	\$ 41.7	\$ 41.9	\$ (0.2)	(0.5)%
Percentage of segment revenues	15.4%	19.9%		

The slight decrease in government segment operating profit dollars was related to increased cost of revenues primarily from our MIDS product group which experienced 4.7 percentage points in cost of revenues growth from the prior year, higher IR&D expenses of \$3.4 million and SG&A expenses of \$7.8 million from higher selling and support costs, and additional non-cash stock-based compensation charges of \$2.4 million, offset by increased revenues of \$60.1 million.

### COMMERCIAL SEGMENT

#### Revenues.

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase (Decrease)	Percentage Increase (Decrease)
<i>Satellite Networks</i>				
Revenues	\$206.2	\$182.3	\$23.9	13.1%
<i>Antenna Systems</i>				
Revenues	\$ 39.6	\$ 47.2	\$ (7.6)	(16.1)%
<i>Total Commercial Segment</i>				
Revenues	\$245.8	\$229.5	\$16.4	7.1%

The increase in commercial segment revenues reflects higher sales of satellite networking systems, principally consumer broadband sales of approximately \$26.3 million offset by certain mobile broadband sales decreases of approximately \$9.8 million. The higher sales of satellite networking equipment revenue reflects higher customer awards stemming from greater market acceptance of our products, the conversion of those awards to revenue, more favorable market conditions in the commercial telecommunications market for our products and further development of our consumer satellite broadband systems.



**Segment Operating Profit.**

Years Ended (In millions, except percentages)	March 30, 2007	March 31, 2006	Dollar Increase (Decrease)	Percentage Increase (Decrease)
<i>Satellite Networks</i>				
Satellite Networks operating profit	\$ 4.4	\$ (6.8)	\$11.2	164.2%
Percentage of Satellite Network revenues	2.1%	(3.7)%		
<i>Antenna Systems</i>				
Antenna Systems operating profit	\$(0.7)	\$ 3.9	\$(4.6)	(117.7)%
Percentage of Antenna Systems revenues	(1.7)%	8.2%		
<i>Total Commercial Segment</i>				
Segment operating profit	\$ 3.7	\$(2.9)	\$ 6.6	226.1%
Percentage of segment revenues	1.5%	(1.3)%		

The increase in commercial segment operating profits of \$6.6 million was primarily driven by improved performance of consumer broadband products which contributed \$16.4 million higher operating profit year over year through improved product sales and program cost reductions over the prior year. This increase was offset by lower margins from our antenna systems products from development cost overruns of approximately \$4.4 million comparatively. Additionally, our commercial segment had increased IR&D expenses of approximately \$2.5 million to support development of next-generation VSAT equipment and other market opportunities and increased non-cash stock-based compensation expense of approximately \$1.1 million.

**FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005****Revenues.**

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

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

**Cost of Revenues.**

Years Ended (In millions, except percentages)	March 31, 2006	April 1, 2005	Dollar Increase	Percentage Increase
Cost of revenues	\$325.3	\$262.3	\$63.0	24.0%
Percentage of revenues	75.0%	75.8%		

The increase in cost of revenues from \$262.3 million to \$325.3 million was primarily due to our increased revenues. However, we did experience a decrease in the cost of revenues as a percent of revenues from 75.8% in the prior year to 75.0% in the current year. The decrease in cost of revenues as a percent of revenues was primarily due to the margin dollars generated from higher revenues and improved program performance in the government segment over fiscal year 2005, in particular improved profitability of MIDS programs and lower product sustaining costs. Cost of revenues also includes a benefit related to a legal settlement with Xetron in the first quarter of fiscal year 2006, which resulted in a net benefit to cost of revenues of \$2.7 million. These increases were partially offset by cost of revenue increases from higher than planned development costs in a radio frequency micro-positioning technology of \$2.5 million and lower VSAT product margins. In addition, cost of revenues in 2006 included a compensation expense charge of approximately \$701,000 related to the accelerated vesting of certain employee stock options versus no amounts recorded in fiscal year 2005.

**Selling, General and Administrative Expenses.**

Years Ended (In millions, except percentages)	March 31, 2006	April 1, 2005	Dollar Increase	Percentage Increase
Selling, general and administrative	\$ 57.1	\$ 48.6	\$ 8.4	17.3%
Percentage of revenues	13.1%	14.1%		

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

**Independent Research and Development.**

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

The increase in IR&D expenses reflects year over year increases in the government segment of \$3.9 million and the commercial segment of \$3.8 million. The higher IR&D expenses are principally for the development of new information assurance, military satellite communication and next-generation VSAT equipment, and 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 one to ten years. The amortization of intangible assets will decrease each year as the intangible assets with shorter lives become fully amortized.

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

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

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

**OUR SEGMENT RESULTS FISCAL YEAR 2006 COMPARED TO FISCAL YEAR 2005****GOVERNMENT SEGMENT****Revenues.**

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

The increase in government segment revenues related primarily to a higher beginning backlog and the receipt of \$199.6 million in awards during fiscal year 2006. The increased sales were principally from higher year over year tactical data link products sales, principally MIDS production sales and MIDS JTRS development program sales of approximately \$28.8 million and government satellite communication systems products sales increasing approximately \$6.1 million.

**Segment Operating Profit.**

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

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

**COMMERCIAL SEGMENT****Revenues.**

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

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

**Segment Operating Profit.**

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

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



**BACKLOG**

As reflected in the table below, funded and firm (funded plus unfunded) backlog increased during fiscal year 2007 with increases coming from our government segment. New contract awards in the current year increased backlog to a new all-time high for us.

(In millions)	March 30, 2007	March 31, 2006
<i>Firm backlog</i>		
Government segment	<b>\$220.0</b>	\$183.7
Commercial segment	<b>168.7</b>	191.2
Total	<b>\$388.7</b>	\$374.9
<i>Funded backlog</i>		
Government segment	<b>\$193.2</b>	\$132.9
Commercial segment	<b>168.7</b>	190.7
Total	<b>\$361.9</b>	\$323.6
Contract options	<b>\$ 39.3</b>	\$ 13.8

The firm backlog does not include contract options. Of the \$388.7 million in firm backlog, approximately \$268.4 million is expected to be delivered in fiscal year 2008, and the balance is expected to be delivered in fiscal year 2009 and thereafter. We include in our backlog only those orders for which we have accepted purchase orders. Over the last year, as more of our products have been placed into market, we have seen a greater percentage of awards from book and ship-type orders. This has resulted in backlog not growing as fast as the past three fiscal years.

Total new awards for both commercial and defense products were \$525.0 million for fiscal year 2007 compared to \$443.7 million for fiscal year 2006.

Backlog is not necessarily indicative of future sales. A majority of our contracts can be terminated at the convenience of the customer since orders are often made substantially in advance of delivery, and our contracts typically provide that orders may be terminated with limited or no penalties. In addition, purchase orders may present product specifications that would require us to complete additional product development. A failure to develop products meeting such specifications could lead to a termination of the related purchase order.

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

**LIQUIDITY AND CAPITAL RESOURCES**

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

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

Cash provided by operating activities in fiscal year 2007 was \$66.7 million as compared to cash provided by operating activities in fiscal year 2006 of \$52.2 million. The increase in cash provided by operating activities in 2007 compared to 2006 of \$14.6 million primarily related to a higher year over year net income of \$6.7 million, increase in adjustments to net income for non-cash add-backs of \$1.7 million and year over year reduction of operating assets and liabilities of \$6.3 million. Billed accounts receivable increased by \$9.6 million from year end due to

increased shipments in both our government and commercial segments due to revenue growth and the achievement of program milestones. Unbilled accounts receivable decreased by \$14.5 million primarily through program performance in meeting milestones and deliverables.

Cash used in investing activities in fiscal year 2007 was \$23.0 million as compared to cash used in investing activities in 2006 of \$39.7 million. We used \$281,000 of cash for the acquisition of Enerdyne, \$7.4 million of cash for the acquisition of ICT and \$15.5 million of cash for capital expenditures, principally for facility expansion and production test equipment to support our growth in fiscal year 2007 compared to \$16.0 million for the acquisition of ECC and \$23.7 million for capital in fiscal year 2006.

Cash provided by financing activities for fiscal year 2007 was \$22.5 million as compared to cash provided by financing activities for fiscal year 2006 of \$9.9 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 employee stock purchase plan. Fiscal year 2007 also includes \$3.3 million in cash inflows related to the incremental tax benefit from stock option exercises and \$4.7 million related to proceeds from a secured borrowing arrangement. During the fourth quarter of fiscal year 2007, we entered into a secured borrowing arrangement, under which we pledged a note receivable from a customer to serve as collateral for the obligation under a borrowing. The arrangement includes recourse to certain other assets of the company in the event of customer default on the note receivable. No significant guarantees beyond the recourse provisions exist. This secured borrowing arrangement does not qualify as a sale of assets under SFAS No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," as we have continued involvement related to the recourse provisions. As of March 30, 2007, we had \$590,000 of the secured borrowing recorded under accrued liabilities and \$4.1 million recorded under other long-term liabilities with a carrying value approximating the balance of the secured borrowing. We had no secured borrowing arrangements as of March 31, 2006.

At March 30, 2007, we had \$103.4 million in cash, cash equivalents and short-term investments, \$187.4 million in working capital and no outstanding borrowings under our line of credit. We had \$4.3 million outstanding under standby letters of credit, principally related to contract performance, leaving borrowing availability under our line of credit of \$55.7 million. At March 31, 2006, we had \$36.9 million in cash, cash equivalents and short-term investments, \$152.9 million in working capital and no outstanding borrowings under our line of credit.

On January 31, 2005, we entered into a three-year, \$60 million revolving credit facility (the "Facility"). 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 our total funded debt to EBITDA (income from operations plus depreciation and amortization). The Facility is collateralized by substantially all of our personal property assets.

The Facility contains financial covenants that set a minimum EBITDA limit for the twelve-month period ending on the last day of any fiscal quarter at \$30 million, a minimum tangible net worth as of the last day of any fiscal quarter at \$135 million and a minimum quick ratio (sum of cash and cash equivalents, accounts receivable and marketable securities, divided by current liabilities) as of the last day of any fiscal quarter at 1.50 to 1.00. We were in compliance with our loan covenants at March 30, 2007.

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

In April 2007, we filed a new universal shelf registration statement with the SEC for the future sale of up to an additional \$200 million of debt securities, common stock, preferred stock, depositary shares and warrants. Additionally, we had available \$200 million of these securities, which were previously registered under shelf registration statements we filed in June 2004 and September 2001. Up to an aggregate of \$400 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.

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

## CONTRACTUAL OBLIGATIONS

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

(In thousands)	Total	For the Fiscal Years Ending			
		2008	2009–2010	2011–2012	After 2012
Operating leases	\$ 83,484	\$ 9,385	\$18,539	\$17,984	\$37,576
Standby letters of credit	4,342	1,478	511	2,353	—
Secured borrowing	4,720	590	2,360	1,770	—
Purchase commitments	153,049	104,345	48,704	—	—
<b>Total</b>	<b>\$245,595</b>	<b>\$115,798</b>	<b>\$70,114</b>	<b>\$22,107</b>	<b>\$37,576</b>

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

In addition, as previously discussed, we have entered into a secured borrowing arrangement under which the Company pledged a note receivable from a customer to serve as collateral for the obligation under borrowing with recourse to other assets of the Company in the event of customer default. No significant guarantees beyond the recourse provision exist.

## OFF-BALANCE SHEET ARRANGEMENTS

We had no material off-balance sheet arrangements at March 30, 2007 as defined in Regulation S-K Item 303(a)(4) other than as discussed under Contractual Obligations above or fully disclosed in the notes to our financial statements included in this filing.

## RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, FASB issued SFAS 155 (SFAS 155), "Accounting for Certain Hybrid Financial Instruments," which amends Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," and Statement of Financial Accounting Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal year beginning after September 15, 2006. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We do not believe that the adoption of this statement will have a material impact on our financial condition, consolidated results of operations or cash flows.

In June 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, which will be fiscal year 2008 for us. We are in the process of determining the effect, if any, the adoption of FIN 48 will have on our 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. The adoption of SAB 108 did not have a material impact on our 2007 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 SFAS 157 will have on our results of operations and financial position.



In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for us in fiscal year 2009. We are currently evaluating the impact of adopting SFAS 159 on our financial position, cash flows, and results of operations.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

As of March 30, 2007, there was no foreign currency exchange contract outstanding. From time to time, we enter into foreign currency exchange contracts to reduce the foreign currency risk for amounts payable to vendors in Euros.

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.** We maintain disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified and pursuant to the requirements of the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of March 30, 2007, the end of the period covered by this annual report. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 30, 2007.

#### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the quarter ended March 30, 2007, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including our principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that its internal control over financial reporting was effective as of March 30, 2007.

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

The Company's independent registered public accounting firm has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of March 30, 2007 as stated in their report which appears on page 36.

# Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ViaSat, Inc.:

We have completed integrated audits of ViaSat, Inc.'s consolidated financial statements and of its internal control over financial reporting as of March 30, 2007, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

## CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows, and stockholders' equity present fairly, in all material respects, the financial position of ViaSat, Inc. and its subsidiaries at March 30, 2007 and March 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 30, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of March 30, 2007 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 30, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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



San Diego, CA  
May 25, 2007

## Consolidated Balance Sheets

(In thousands, except share data)	As of March 30, 2007	As of March 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$103,345	\$ 36,723
Short-term investments	47	164
Accounts receivable, net	139,789	144,715
Inventories	46,034	49,883
Deferred income taxes	9,721	7,008
Prepaid expenses and other current assets	9,218	5,960
Total current assets	308,154	244,453
Goodwill	65,988	28,133
Other intangible assets, net	33,601	23,983
Property and equipment, net	51,463	46,211
Other assets	24,733	20,525
Total assets	\$483,939	\$363,305
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 43,516	\$ 50,577
Accrued liabilities	62,470	40,969
Payables to former shareholders of acquired business	14,762	—
Total current liabilities	120,748	91,546
Other liabilities	13,273	7,625
Total liabilities	134,021	99,171
Commitments and contingencies (Notes 9 and 10)		
Minority interest in consolidated subsidiary	1,123	836
Stockholders' equity:		
Series A, convertible preferred stock, \$.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding at March 30, 2007 and March 31, 2006, respectively	—	—
Common stock, \$.0001 par value, 100,000,000 shares authorized; 29,733,396 and 27,594,549 shares issued and outstanding at March 30, 2007 and March 31, 2006, respectively	3	3
Paid-in capital	232,693	177,680
Retained earnings	115,969	85,803
Accumulated other comprehensive income (loss)	130	(188)
Total stockholders' equity	348,795	263,298
Total liabilities and stockholders' equity	\$483,939	\$363,305

See accompanying notes to the consolidated financial statements.



## Consolidated Statements of Operations

Years Ended (In thousands, except per share data)	March 30, 2007	March 31, 2006	April 1, 2005
Revenues	<b>\$516,566</b>	\$433,823	\$345,939
<b>OPERATING EXPENSES:</b>			
Cost of revenues	<b>380,092</b>	325,271	262,260
Selling, general and administrative	<b>69,896</b>	57,059	48,631
Independent research and development	<b>21,631</b>	15,757	8,082
Amortization of intangible assets	<b>9,502</b>	6,806	6,642
Income from operations	<b>35,445</b>	28,930	20,324
<b>OTHER INCOME (EXPENSE):</b>			
Interest income	<b>2,189</b>	248	445
Interest expense	<b>(448)</b>	(448)	(141)
Income before income taxes and minority interest	<b>37,186</b>	28,730	20,628
Provision for income taxes	<b>6,755</b>	5,105	1,246
Minority interest in net earnings of subsidiary, net of tax	<b>265</b>	110	115
Net income	<b>\$ 30,166</b>	\$ 23,515	\$ 19,267
Basic net income per share	<b>\$ 1.06</b>	\$ 0.87	\$ 0.72
Diluted net income per share	<b>\$ 0.98</b>	\$ 0.81	\$ 0.68
Shares used in computing basic net income per share	<b>28,589</b>	27,133	26,749
Shares used in computing diluted net income per share	<b>30,893</b>	28,857	28,147

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

Years Ended (In thousands)	March 30, 2007	March 31, 2006	April 1, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 30,166	\$ 23,515	\$ 19,267
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Depreciation	14,188	11,689	10,053
Amortization of intangible assets and capitalized software	12,667	10,207	10,072
Provision for bad debts	1,215	246	234
Deferred income taxes	(10,337)	(5,405)	(3,353)
Incremental tax benefits from stock options exercised	(3,324)	—	—
Loss on sale and disposal of property and equipment	425	385	—
Stock compensation expense	4,987	1,556	—
Other non-cash adjustments	667	138	120
<b>INCREASE (DECREASE) IN CASH RESULTING FROM CHANGES IN OPERATING ASSETS AND LIABILITIES, NET OF EFFECTS OF ACQUISITION:</b>			
Accounts receivable	5,223	(2,320)	(30,760)
Inventories	5,239	(12,824)	(6,249)
Other assets	(8,919)	3,945	(984)
Accounts payable	(11,558)	10,263	5,885
Accrued liabilities	24,862	8,486	(1,697)
Other liabilities	1,240	2,284	995
Net cash provided by operating activities	66,741	52,165	3,583
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sales of short-term investments	117	(2)	(2)
Purchases of property and equipment	(15,452)	(23,734)	(11,279)
Acquisitions of businesses, net of cash acquired	(7,687)	(15,994)	—
Net cash used in investing activities	(23,022)	(39,730)	(11,281)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from line of credit	—	3,000	19,000
Payments on line of credit	—	(3,000)	(19,000)
Incremental tax benefits from stock options exercised	3,324	—	—
Proceeds from issuance of secured borrowing	4,720	—	—
Proceeds from issuance of common stock	14,475	9,883	3,709
Net cash provided by financing activities	22,519	9,883	3,709
Effect of exchange rate changes on cash	384	(174)	58
Net increase (decrease) in cash and cash equivalents	66,622	22,144	(3,931)
Cash and cash equivalents at beginning of year	36,723	14,579	18,510
Cash and cash equivalents at end of year	\$ 103,345	\$ 36,723	\$ 14,579
<b>SUPPLEMENTAL INFORMATION:</b>			
Cash paid for interest	\$ 541	\$ 158	\$ 141
Cash paid for income taxes, net	\$ 11,565	\$ 4,048	\$ 3,680
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Issuance of common stock in connection with acquisitions (Note 13)	\$ 29,605	\$ —	\$ —
Issuance of stock options in connection with acquisition	\$ —	\$ 525	\$ —
Issuance of payable in connection with acquisitions	\$ 14,762	\$ —	\$ —

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

(In thousands, except share data)	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
	Number of Shares	Amount					
Balance at April 2, 2004	26,540,159	\$3	\$ 159,323	\$ 43,021	\$ 128	\$ 202,475	
Exercise of stock options	230,094		2,037			2,037	
Tax benefit from exercise of stock options			787			787	
Issuance of stock under Employee Stock Purchase Plan	91,647		1,672			1,672	
Net income				19,267		19,267	\$19,267
Hedging transaction, net of tax					(54)	(54)	(54)
Foreign currency translation, net of tax					99	99	99
Comprehensive income							<u>\$19,312</u>
Balance at April 1, 2005	26,861,900	3	163,819	62,288	173	226,283	
Exercise of stock options and warrants	622,380		7,974			7,974	
Issuance of stock options in connection with acquisition of a business			234			234	
Amortization of deferred compensation			95			95	
Accelerated vesting of employee stock options			1,461			1,461	
Tax benefit from exercise of stock options			2,188			2,188	
Issuance of stock under Employee Stock Purchase Plan	110,269		1,909			1,909	
Net income				23,515		23,515	\$23,515
Hedging transaction, net of tax					(129)	(129)	(129)
Foreign currency translation, net of tax					(232)	(232)	(232)
Comprehensive income							<u>\$23,154</u>
Balance at March 31, 2006	27,594,549	3	177,680	85,803	(188)	263,298	
Exercise of stock options	894,199		12,146			12,146	
Stock issued in connection with acquisitions of businesses, net of issuance costs	1,138,304		29,605			29,605	
Stock-based compensation expense			4,987			4,987	
Tax benefit from exercise of stock options			5,946			5,946	
Issuance of stock under Employee Stock Purchase Plan	106,344		2,329			2,329	
Net income				30,166		30,166	\$30,166
Hedging transaction, net of tax					183	183	183
Foreign currency translation, net of tax					135	135	135
Comprehensive income							<u>\$30,484</u>
<b>BALANCE AT MARCH 30, 2007</b>	<b>29,733,396</b>	<b>\$3</b>	<b>\$232,693</b>	<b>\$115,969</b>	<b>\$ 130</b>	<b>\$348,795</b>	

See accompanying notes to the consolidated financial statements.



# Notes to Consolidated Financial Statements

## NOTE 1

### The Company and a Summary of Its Significant Accounting Policies

**THE COMPANY.** ViaSat, Inc. (“we” or the “Company”) designs, produces and markets advanced broadband digital satellite communications and other wireless networking and signal processing equipment.

**PRINCIPLES OF CONSOLIDATION.** The Company’s consolidated financial statements include the assets, liabilities and results of operations of TrellisWare Technologies, Inc., a majority owned subsidiary of ViaSat. All significant intercompany amounts have been eliminated.

We have adopted a 52- or 53-week fiscal year beginning with our fiscal year 2004. All references to a fiscal year refer to the fiscal year 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 ended on June 30, 2006, September 29, 2006, December 29, 2006 and March 30, 2007.

During the Company’s fiscal years 2006 and 2007, the Company completed the acquisitions of Efficient Channel Coding, Inc. (ECC), Enerdyne Technologies, Inc. (Enerdyne) and Intelligent Compression Technologies, Inc. (ICT). The acquisitions were accounted for as purchases and accordingly, the consolidated financial statements include the operating results of ECC, Enerdyne and ICT from the dates of acquisition in the Company’s consolidated financial statements. See Note 13 for further discussion.

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

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

**CASH EQUIVALENTS.** Cash equivalents consist of highly liquid investments with original maturities of 90 days or less.

**SHORT-TERM INVESTMENTS.** At March 30, 2007 and March 31, 2006, the Company held investments in investment grade debt securities with various maturities. Management determines the appropriate classification of its investments in debt securities at the time of purchase and has designated all of its investments as held-to-maturity. The Company’s investments in these securities as of March 30, 2007 and March 31, 2006 totaled \$47,000 and \$164,000, respectively.

**ACCOUNTS RECEIVABLE AND UNBILLED ACCOUNTS RECEIVABLE.** The Company records receivables at net realizable value including an allowance for estimated uncollectible accounts. The allowance for doubtful accounts is based on the Company’s assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of accounts receivable balances, and current economic conditions that may affect a customer’s ability to pay. Amounts determined to be uncollectible are charged or written off against the reserve.

Unbilled receivables consist of costs and fees earned and billable on contract completion or other specified events. Unbilled receivables are generally expected to be collected within one year.

**CONCENTRATION OF RISK.** Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents, short-term investments, and trade accounts receivable which are generally not collateralized. The Company limits its exposure to credit loss by placing its cash equivalents and short-term investments with high credit quality financial institutions and investing in high quality short-term debt instruments. The Company establishes allowances for bad debts based on historical collection experiences within the various markets in which the Company operates, number of days the accounts are past due and any specific information that the Company becomes aware of such as bankruptcy or liquidity issues of customers.

Revenues from the U.S. government comprised 30.9%, 33.6% and 30.3% of total revenues for fiscal years 2007, 2006 and 2005, respectively. Billed accounts receivable to the U.S. government as of March 30, 2007 and March 31, 2006 were 22.9% and 23.3%, respectively, of total billed receivables. In addition, one commercial customer comprised 15.9%, 9.8% and 2.4% of total revenues for fiscal years 2007, 2006 and 2005, respectively. Billed accounts receivable for a commercial customer as of March 30, 2007 and March 31, 2006 were 12.7% and 8.0% respectively, of total billed receivables. No other customer accounted for at least 10% of total revenues.

Revenues from the U.S. government and its prime contractors amounted to \$270.7 million, \$210.6 million and \$175.4 million for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, respectively. Revenues from commercial customers amounted to \$245.8 million, \$229.5 million and \$177.4 million for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, respectively. The Company's five largest contracts (by revenues) generated approximately 46.4%, 44.1% and 27.4% of the Company's total revenues for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, respectively.

The Company relies on a limited number of contract manufacturers to produce its products.

**INVENTORY.** Inventory is valued at the lower of cost or market, cost being determined by the weighted average method.

**PROPERTY AND EQUIPMENT.** Equipment, computers and software, and furniture and fixtures are recorded at cost, and depreciated using the straight-line method over estimated useful lives of five years, three years and seven years, respectively. Leasehold improvements are capitalized and amortized on the straight-line method over the shorter of the lease term or the life of the improvement. Additions to property and equipment together with major renewals and betterments are capitalized. Maintenance, repairs and minor renewals and betterments are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized.

**GOODWILL AND INTANGIBLE ASSETS.** SFAS No. 141 (SFAS 141), "Business Combinations," requires that all business combinations be accounted for using the purchase method. SFAS 141 also specifies criteria for recognizing and reporting intangible assets apart from goodwill; however, acquired workforce must be recognized and reported in goodwill. SFAS No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," requires that intangible assets with an indefinite life should not be amortized until their life is determined to be finite, and all other intangible assets must be amortized over their useful life. SFAS 142 prohibits the amortization of goodwill and indefinite-lived intangible assets, but instead requires these assets to be tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of specified events. In addition, all goodwill must be assigned to reporting units for purposes of impairment testing.

**IMPAIRMENT OF GOODWILL.** The Company accounts for its goodwill under SFAS 142. The SFAS 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. 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. SFAS 142 requires goodwill to be tested for impairment annually at the same time every year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist.

The Company estimates the fair values of the related operations using discounted cash flows and other indicators of fair value. The forecast of future cash flows are based on the Company's best estimate of the future revenues and operating costs, based primarily on 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 142 goodwill impairment model, which could significantly influence whether goodwill impairment needs to be recorded.

The cash flow forecasts are adjusted 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).** In accordance with SFAS No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company assesses potential impairments to 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. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its 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. No such impairments have been identified by the Company.

**LAND 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. As of March 30, 2007, we reported the property in accordance with SFAS 144, 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.

**ACQUISITIONS.** On February 16, 2007, the Company completed the acquisition of all of the outstanding capital stock of privately-held ICT. ICT provides corporations, internet service providers (ISPs) and satellite/wireless carriers with data compression techniques, advanced transport protocols and application optimization to increase the speeds of either narrowband or broadband terrestrial, wireless or satellite services. The acquisition was accounted for as a purchase and accordingly, the consolidated financial statements include the operating results of ICT from the date of acquisition in the Company's Satellite Networks product group in the commercial segment. See Note 13 of the Notes to Consolidated Financial Statements for further discussion.

On June 20, 2006, the Company completed the acquisition of all of the outstanding capital stock of 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 acquisition was accounted for as a purchase and accordingly, the consolidated financial statements include the operating results of Enerdyne from the date of acquisition in the Company's government segment. See Note 13 of the Notes to Consolidated Financial Statements for further discussion.

On December 1, 2005, the Company completed the acquisition of all of the outstanding capital stock of ECC, a privately-held designer and supplier of broadband communication integrated circuits and satellite communications systems. The acquisition was accounted for as a purchase and accordingly, the consolidated financial statements include the operating results of ECC from the date of acquisition in the Company's Satellite Network product group in the commercial segment. See Note 13 of the Notes to Consolidated Financial Statements for further discussion.

**WARRANTY RESERVES.** The Company provides limited warranties on certain of its products for periods of up to five years. The Company records warranty reserves when products are delivered based upon an estimate of total warranty costs, with amounts expected to be incurred within twelve months classified as a current liability.

**FAIR VALUE OF FINANCIAL INSTRUMENTS.** At March 30, 2007, the carrying amounts of the Company's financial instruments, including cash equivalents, short-term investments, trade receivables, accounts payable and accrued liabilities, approximated their fair values due to their short-term maturities. The estimated fair value of the Company's long-term secured borrowing is determined by using available market information for those securities or similar financial instruments.

**DERIVATIVES.** The Company enters into foreign currency forward and option contracts to hedge certain forecasted foreign currency transactions. Gains and losses arising from foreign currency forward and option contracts not designated as hedging instruments are recorded in interest income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts that are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as gains (losses) on derivative instruments until the underlying transaction affects our earnings. In fiscal years 2007 and 2006, the Company recorded \$136,000 and \$347,000 in realized losses, respectively, related to derivatives. There were no realized gains or losses recorded for fiscal year 2005. The Company had no foreign currency forward contracts outstanding at March 30, 2007. The fair value of our foreign currency forward contracts was a liability of \$183,000 at March 30, 2006. We had \$4.1 million and \$2.7 million of notional value of foreign currency forward contracts outstanding at March 31, 2006 and April 1, 2005, respectively.

**PAYABLE TO FORMER SHAREHOLDERS OF ACQUIRED BUSINESS.** On May 23, 2006, in relation to the Company's ECC acquisition, the Company agreed under the terms of the ECC acquisition agreement to pay the maximum additional consideration amount to the former ECC stockholders in the amount of \$9.0 million which has been accrued as of March 30, 2007. The \$9.0 million is payable 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 product group in the commercial segment in the first quarter of fiscal year 2007.

As of March 30, 2007, in relation to the Enerdyne acquisition and under the terms of the Enerdyne acquisition agreement, the Company owed an additional consideration amount to the former Enerdyne stockholders in the amount of \$5.9 million which has been accrued as of March 30, 2007. The \$5.9 million was payable in cash and stock in accordance with certain terms of the arrangement, in May 2007. Accordingly, on May 3, 2007, the Company issued 170,763 shares of common stock and \$260,000 in cash in full settlement of all additional consideration provisions of \$5.9 million. The additional purchase price consideration of \$5.9 million was recorded as additional goodwill in the government segment as of March 30, 2007.

**SELF-INSURANCE LIABILITIES.** In the first quarter of fiscal year 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 March 30, 2007 and March 31, 2006 of \$883,000 and \$75,000, respectively. Our estimate which is subject to inherent variability, is based on average claims experience in our industry and our own experience in terms of frequency and severity of claims, including asserted and unasserted claims incurred but not reported, with no explicit provision for adverse fluctuation from year to year. 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.

**SECURED BORROWINGS.** Occasionally, the Company enters into secured borrowing arrangements in connection with customer financing in order to provide additional sources of funding. As of March 30, 2007, the Company had one secured borrowing arrangement, under which the Company pledged a note receivable from a customer to serve as collateral for the obligation under borrowing. The arrangement includes recourse to certain other assets of the Company in the event of customer default on the note receivable. No significant guarantees beyond the recourse provision exist. Payments under the arrangement consist of semi-annual principle payments of \$590,000 plus accrued interest for five years with the first semi-annual payment being interest only. The interest rate resets semi-annually to the current LIBOR rate plus a margin of 2.5%. This secured borrowing arrangement does not qualify as a sale of assets under SFAS No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," as the Company has continued involvement related to recourse provision. As of March 30, 2007, the Company had \$590,000 of the secured borrowing recorded under accrued liabilities and \$4.1 million recorded under other long-term liabilities with a carrying value approximating the balance of the secured borrowing. The Company had no secured borrowing arrangements as of March 31, 2006.

**INDEMNIFICATION PROVISIONS.** During the ordinary course of business, in certain limited circumstances, the Company includes indemnification provisions within certain of its contracts, generally parties with which the Company has commercial relations. Pursuant to these agreements, the Company will indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, including but not limited to intellectual property indemnity. Historically, to date, there have not been any costs incurred in connection with such indemnification clauses. Our insurance policies do not cover the cost of defending indemnification claims or providing indemnification, so if a claim was filed against the Company by any party we indemnify, we would incur substantial legal costs and/or damages. A claim would be accrued when a loss is probable and the amount can be reasonably estimated. At March 30, 2007 and March 31, 2006, no such amounts were accrued.

**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' 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 either based on the ratio of actual costs incurred to total estimated costs expected to be incurred related to the contract or under the cost-to-cost method or as products are shipped under the units-of-delivery method. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. Changes in estimates of profit or loss on contracts are included in earnings on a cumulative basis in the period the estimate is changed. In the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, we recorded losses of approximately \$4.5 million, \$5.1 million and \$5.7 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 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.

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," the Company records shipping and handling costs billed to customers as a component of revenues, and shipping and handling costs incurred by the Company for inbound and outbound freight are recorded as a component of cost of revenues.

Collections in excess of revenues represent cash collected from customers in advance of revenue recognition.

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 2002. Contract revenues and accounts receivable are stated at amounts which are expected to be realized upon final settlement.

**STOCK-BASED PAYMENTS.** On April 1, 2006, the Company adopted SFAS No. 123 (revised 2004) (SFAS 123R), "Share-Based Payment." Under SFAS 123R, stock-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. The Company has no awards with market or performance conditions. The Company adopted the provisions of SFAS 123R using a modified prospective application. Accordingly, prior periods have not been revised for comparative purposes. The valuation provisions of SFAS 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" (SFAS 123).

On November 10, 2005, the FASB issued FASB Staff Position No. SFAS 123R-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 stock-based compensation pursuant to SFAS 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 stock-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R.

**Stock-Based Compensation Information under SFAS 123R.** Upon adoption of SFAS 123R, the Company continued to use the same method of valuation for stock options granted beginning in fiscal year 2007, the Black-Scholes option-pricing model (Black-Scholes model) which was previously used for the Company's pro forma information required under SFAS 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 March 30, 2007, 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 SFAS 123R was \$3.1 million and for the stock purchase plan it was \$782,000 for the fiscal year ended March 30, 2007. The total income tax benefit recognized in the income statement for stock-based compensation arrangements under SFAS 123R was \$1.3 million for the fiscal year ended March 30, 2007. There was no compensation cost capitalized as part of inventory and fixed assets for the fiscal year ended March 30, 2007, as the amounts were not significant.

As of March 30, 2007, there was total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Equity Participation Plan (including stock options and restricted stock units) and the Employee Stock Purchase Plan of \$19.1 million and \$169,000, respectively. These costs are expected to be recognized over a weighted average period of 3.1 years, 3.5 years and less than six months for stock options, restricted stock units and the Employee Stock Purchase Plan, respectively. The total fair value of shares vested during the fiscal year ended March 30, 2007, including stock options and restricted stock units, was \$3.5 million.

Cash received from option exercise under all stock-based payment arrangements for the fiscal year 2007 was \$14.5 million. The actual tax benefit realized for the tax deductions from option exercise of the stock-based payment arrangements totaled \$5.9 million for the fiscal year 2007.

**Stock Options and Employee Stock Purchase Plan.** The weighted average estimated fair value of employee stock options granted and employee stock purchase plan shares issued during the fiscal year 2007 was \$11.99 and \$7.03 per share, respectively, using the Black-Scholes model with the following weighted average assumptions (annualized percentages) for the fiscal year 2007:

	Employee Stock Options	Employee Stock Purchase Plan
Volatility	48.0%	34.5%
Risk-free interest rate	4.8%	5.2%
Dividend yield	0.0%	0.0%
Weighted average expected life	4.5 years	0.5 years

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 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 fiscal year 2007 derived from the simplified method was 4.5 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 fiscal year 2007 is presented below:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in 000s)
Outstanding at April 1, 2006	5,700,146	\$ 16.70		
Options granted	928,850	26.68		
Options canceled	(55,244)	20.63		
Options exercised	(894,199)	13.58		
<b>Outstanding at March 30, 2007</b>	<b>5,679,553</b>	<b>\$18.78</b>	<b>5.28</b>	<b>\$80,711</b>
<b>Vested and exercisable at March 30, 2007</b>	<b>4,672,237</b>	<b>\$17.20</b>	<b>5.16</b>	<b>\$73,759</b>

The total intrinsic value of stock options exercised during the fiscal year 2007 was \$15.1 million.

**Restricted Stock Units.** Restricted stock units represent a right to receive shares of common stock at a future date determined in accordance with the participant's award agreement. There is no exercise price and no monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award. Instead, consideration is furnished in the form of the participant's services to the Company. Restricted stock units generally vest over four years. Compensation cost for these awards is based on the estimated fair value on the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period. For the fiscal year 2007, the Company recognized \$1.2 million in stock-based compensation cost related to these restricted stock unit awards. At March 30, 2007, there was \$9.0 million remaining in unrecognized compensation cost related to these awards, which is expected to be recognized over a weighted average period of 3.5 years.

The weighted average grant date fair value of restricted stock units granted during the fiscal year 2007 was \$26.15 per unit. A summary of restricted stock unit activity for the fiscal year 2007 is presented below:

	Restricted Stock Units	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in 000s)
Outstanding at April 1, 2006	—		
Awarded	392,018		
Forfeited	(2,504)		
Released	—		
<b>Outstanding at March 30, 2007</b>	<b>389,514</b>	<b>3.5</b>	<b>\$12,842</b>
<b>Vested and deferred at March 30, 2007</b>	<b>—</b>	<b>—</b>	<b>—</b>

There were no restricted stock units vested as of March 30, 2007, therefore, the total intrinsic value of vested restricted stock units during the fiscal year 2007 was \$0.

As stock-based compensation expense recognized in the consolidated statement of operations for the fiscal year 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 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 SFAS 123 for the periods prior to fiscal year 2007, the Company accounted for forfeitures as they occurred.

Total estimated stock-based compensation expense recognized for the fiscal year 2007 was comprised as follows:

Year Ended (In thousands, except per share data)	March 30, 2007
Cost of revenues	\$ 1,830
Selling, general and administrative	2,884
Independent research and development	273
Stock-based compensation expense before taxes	4,987
Related income tax benefits	(1,764)
Stock-based compensation expense, net of taxes	<u>\$ 3,223</u>
Net stock-based compensation expense, per common share:	
Basic	<u>\$ 0.11</u>
Diluted	<u>\$ 0.10</u>

The Company recorded \$2.8 million in stock-based compensation expense during the fiscal year 2007 related to stock-based awards granted during fiscal year 2007 (including stock options and restricted stock units). In addition, for the fiscal year 2007, the Company recorded incremental tax benefits from stock options exercised of \$3.3 million which is classified as part of cash flows from financing activities in the condensed consolidated statements of cash flows.

**PRO FORMA INFORMATION UNDER SFAS 123 FOR PERIODS PRIOR TO FISCAL YEAR 2007.** Prior to adopting the provisions of SFAS 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 SFAS 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 SFAS 123R except for accelerated options and stock options issued as part of the acquisition of ECC described below. 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.

In fiscal year 2006, the Company recorded total stock compensation expense of \$1.6 million of which \$95,000 related to stock options issued as part of the acquisition of ECC and \$1.5 million related to the acceleration of vesting of certain employee stock options. Stock compensation expense presented in consolidated statement of operations was recorded as follows: \$796,000 to cost of revenue, \$686,000 to selling, general and administrative expense and \$74,000 to independent research and development. In fiscal year 2005, the Company recorded no compensation expense.

On December 1, 2005, as a part of the acquisition of all of the outstanding capital stock of ECC, the Company issued 23,424 unvested incentive stock options under the Efficient Channel Coding, Inc. 2000 Long Term Incentive Plan assumed under the terms of the acquisition agreement. In accordance with SFAS 141, the Company recorded \$291,000 in deferred stock-based compensation which is being amortized to compensation expense over the remaining service period. The Company amortized \$136,000 to compensation expense related to this deferred stock-based compensation through March 30, 2007.

For purposes of pro forma disclosures under SFAS 123 for the fiscal year ended March 31, 2006 and April 1, 2005, the estimated fair value of the stock-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:

Year Ended (In thousands, except per share data)	March 31, 2006	April 1, 2005
Net income as reported	\$ 23,515	\$19,267
Stock-based compensation included in net income, net of tax	1,333	—
Stock-based employee compensation expense under fair value based method, net of tax	(19,377)	(8,146)
Pro forma net income	\$ 5,471	\$11,121
Basic earnings per share as reported	\$ 0.87	\$ 0.72
Pro forma	\$ 0.20	\$ 0.42
Diluted earnings per share as reported	\$ 0.81	\$ 0.68
Pro forma	\$ 0.19	\$ 0.40



Stock-based employee compensation expense under the fair value method included in the Company's fiscal year 2006 pro forma net income included approximately \$11.5 million, net of tax, related to the acceleration of the vesting of 1.5 million shares of common stock options approved by the Company's Board of Directors in the fourth quarter of 2006.

The fair values of options granted during the years ended as reported below were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Employee Stock Options		Employee Stock Purchase Plan	
	2006	2005	2006	2005
Expected life (in years)	6.31	6.30	0.50	0.50
Risk-free interest rate	4.57%	3.79%	4.38%	1.68%
Expected volatility	55.00%	62.00%	33.00%	46.00%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

The weighted average estimated fair value of employee stock options granted during 2006 and 2005 was \$13.54 and \$11.33 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during 2006 and 2005 was \$5.95 and \$7.92 per share, respectively. In connection with the acquisition of ECC, the Company exchanged options with a weighted average fair value of \$22.43. There were no options granted less than fair market value during 2005.

**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 was not material to our fiscal year 2007 net income. This non-cash compensation expense adjustment 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 adjustment.

**ACCELERATION OF VESTING OF CERTAIN UNVESTED EMPLOYEE STOCK OPTIONS.** On March 30, 2006, the Board of Directors of the Company accelerated the vesting of certain unvested employee stock options previously awarded to the Company's employees under the Company's 1996 Equity Participation Plan. Stock options held by the Company's non-employee directors were not accelerated. Options to purchase approximately 1.5 million shares of common stock (representing approximately 26% of the Company's total current outstanding options) were subject to this acceleration. All of the accelerated options were "in-the-money" and had exercise prices ranging from \$4.70 to \$26.94. All other terms and conditions applicable to such options, including the exercise prices, remain unchanged. As a result, the Company recorded \$1.5 million in compensation expense in accordance with generally accepted accounting principles.

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

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

**INDEPENDENT RESEARCH AND DEVELOPMENT.** Independent research and development, which is not directly funded by a third party, is expensed as incurred. Independent research and development expenses consist primarily of salaries and other personnel-related expenses, supplies, prototype materials, and other expenses related to research and development programs.

**SOFTWARE DEVELOPMENT.** Costs of developing software for sale are charged to research and development expense when incurred, until technological feasibility has been established. Software development costs incurred from the time technological feasibility is reached until the product is available for general release to customers are capitalized and reported at the lower of unamortized cost or net realizable value. Once the product is available for general release, the software development costs are amortized based on the ratio of current to future revenue for each product with an annual minimum equal to straight-line amortization over the remaining estimated economic life of the product not to exceed five years. The Company capitalized no costs related to software developed for resale for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005. Amortization expense of software development costs was \$3.1 million for fiscal year 2007 and \$3.4 million for fiscal years 2006 and 2005.

**RENT EXPENSE, DEFERRED RENT OBLIGATIONS AND DEFERRED LEASE INCENTIVES.** The Company leases all of its facilities under operating leases. Some of these lease agreements contain tenant improvement allowances funded by landlord incentives, rent holidays, and rent escalation clauses. Accounting principles generally accepted in the United States require rent expense to be recognized on a straight-line basis over the lease term. The difference between the rent due under the stated periods of the lease compared to that of the straight-line basis is recorded as deferred rent within accrued and other long-term liabilities in the consolidated balance sheet.

For purposes of recognizing landlord incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date that it obtains the legal right to use and control the leased space to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of occupying new space. For tenant improvement allowances funded by landlord incentives and rent holidays, the Company records a deferred lease incentive liability in accrued and other long-term liabilities on the consolidated balance sheet and amortizes the deferred liability as a reduction to rent expense on the consolidated statement of operations over the term of the lease.

Certain lease agreements contain rent escalation clauses which provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than the date of initial occupancy. Such "stepped" rent expense is recorded in the consolidated statement of operations on a straight-line basis over the lease term.

At March 30, 2007 and March 31, 2006, deferred rent included in accrued liabilities in our consolidated balance sheets was \$378,000 and \$434,000, respectively, and deferred rent included in other long-term liabilities in our consolidated balance sheets was \$3.5 million and \$2.8 million, respectively.

**INCOME TAXES.** Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future tax consequences resulting from differences in the financial reporting and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax credit and loss carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred income tax expense (benefit) is the net change during the year in the deferred income tax asset or liability.

**EARNINGS PER SHARE.** Basic earnings per share is computed based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share is based upon the weighted average number of common shares outstanding and potential common stock, if dilutive during the period. Potential common stock includes options granted and restricted stock units awarded under the Company's equity compensation plan which are included in the earnings per share calculations using the treasury stock method, common shares expected to be issued under the Company's employee stock purchase plan, and shares contingently issuable based upon achievement of certain earnings performance at March 30, 2007 and other conditions denoted in the Company's agreements with the predecessor shareholders of Enerdyne acquired on June 20, 2006.

**FOREIGN CURRENCY.** In general, the functional currency of a foreign operation is deemed to be the local country's currency. Consequently, assets and liabilities of operations outside the United States are generally translated into United States dollars, and the effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) within stockholders' equity.

**SEGMENT REPORTING.** The Company's 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 possesses economic characteristics, which differ from the commercial segment. Therefore, the Company is organized primarily on the basis of products with commercial and government (defense) communication applications. Operating segments are determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance.

**RECENT ACCOUNTING PRONOUNCEMENTS.** In February 2006, the FASB issued SFAS 155 (SFAS 155), "Accounting for Certain Hybrid Financial Instruments," which amends Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," and Statement of Financial Accounting Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not believe that the adoption of this statement will have a material impact on its financial condition, consolidated results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes." FIN 48 creates a single model to address accounting for uncertainty in income tax positions. FIN 48 prescribes a minimum threshold that an income tax position is required to meet before any benefit is recognized in the financial statements. The interpretation also provides guidance on derecognition and measurement criteria in addition to classification, interest and penalties and interim period accounting, and it significantly expands disclosure provisions for uncertain tax positions that have been or are expected to be taken in a company's tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the Company, accordingly, will adopt this statement in the first quarter of fiscal year 2008. The Company is currently evaluating the impact 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. The adoption of SAB 108 did not have a material impact on our 2007 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. The Company is currently assessing the impact SFAS 157 will have on its results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company in fiscal year 2009. The Company is currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows, and results of operations.

## NOTE 2

### Composition of Certain Balance Sheet Captions

(In thousands)	March 30, 2007	March 31, 2006
Accounts receivable, net:		
Billed	\$ 89,645	\$ 79,107
Unbilled	51,358	65,873
Allowance for doubtful accounts	(1,214)	(265)
	<b>\$ 139,789</b>	<b>\$ 144,715</b>
Inventories:		
Raw materials	\$ 19,840	\$ 28,457
Work in process	7,963	9,862
Finished goods	18,231	11,564
	<b>\$ 46,034</b>	<b>\$ 49,883</b>

(In thousands)	March 30, 2007	March 31, 2006
Prepaid expenses and other current assets:		
Prepaid expenses	\$ 8,339	\$ 5,322
Other	879	638
	<b>\$ 9,218</b>	<b>\$ 5,960</b>
Other intangible assets, net:		
Technology	\$ 43,270	\$ 29,670
Contracts and relationships	18,766	15,436
Non-compete agreement	8,920	7,950
Other intangibles	9,295	8,075
	<b>80,251</b>	<b>61,131</b>
Less accumulated amortization	<b>(46,650)</b>	<b>(37,148)</b>
	<b>\$ 33,601</b>	<b>\$ 23,983</b>
Property and equipment, net:		
Machinery and equipment	\$ 48,439	\$ 47,704
Computer equipment and software	36,936	33,693
Furniture and fixtures	7,552	5,905
Leasehold improvements	12,983	7,617
Land held for sale	3,124	3,124
Construction in progress	2,440	5,808
	<b>111,474</b>	<b>103,851</b>
Less accumulated depreciation and amortization	<b>(60,011)</b>	<b>(57,640)</b>
	<b>\$ 51,463</b>	<b>\$ 46,211</b>
Other assets:		
Capitalized software costs, net	\$ 3,576	\$ 6,963
Deferred income taxes	13,328	11,754
Other	7,829	1,808
	<b>\$ 24,733</b>	<b>\$ 20,525</b>
Accrued liabilities:		
Current portion of warranty reserve	\$ 5,007	\$ 4,395
Accrued vacation	7,958	6,381
Accrued wages and performance compensation	10,678	7,841
Collections in excess of revenues	28,030	15,141
Other	10,797	7,211
	<b>\$ 62,470</b>	<b>\$ 40,969</b>
Other liabilities:		
Accrued warranty	\$ 4,856	\$ 3,974
Deferred rent, long-term portion	3,514	2,809
Secured borrowing, long-term portion	4,130	—
Other	773	842
	<b>\$ 13,273</b>	<b>\$ 7,625</b>

**NOTE 3****Accounting for Goodwill and Intangible Assets**

The Company accounts for its 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 reporting units that have goodwill assigned to them. Reporting units within the Company's government and commercial segments have goodwill assigned to them. The Company estimates the fair values of the reporting 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.

The annual test of impairment as required by SFAS No. 142 was completed in the fourth quarter of our fiscal year. In applying the first step, which is identification of any impairment of goodwill as of the test date, no impairment of goodwill resulted. Since step two is required only if step one reveals an impairment, the Company was not required to complete step two and the annual impairment testing was complete.

The Company will continue to 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, the Company must 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 original estimated useful lives of eight months to ten years. The amortization expense was \$9.5 million, \$6.8 million and \$6.6 million for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, respectively. The estimated amortization expense for the next five years is as follows:

(In thousands)	Amortization
Expected for fiscal year 2008	\$ 9,150
Expected for fiscal year 2009	8,403
Expected for fiscal year 2010	5,179
Expected for fiscal year 2011	4,669
Expected for fiscal year 2012	3,569
Thereafter	2,631
	<b>\$33,601</b>

The allocation of the intangible assets and the related accumulated amortization as of March 30, 2007 and March 31, 2006 is as follows (in thousands):

	As of March 30, 2007			As of March 31, 2006		
	Total	Accumulated Amortization	Net Book Value	Total	Accumulated Amortization	Net Book Value
<b>INTANGIBLE ASSETS</b>						
Technology	<b>\$43,270</b>	<b>\$(23,217)</b>	<b>\$20,053</b>	\$29,670	\$(18,740)	\$10,930
Contracts and relationships	<b>18,766</b>	<b>(8,570)</b>	<b>10,196</b>	15,436	(6,649)	8,787
Non-compete agreements	<b>8,920</b>	<b>(8,048)</b>	<b>872</b>	7,950	(7,560)	390
Other amortizable assets	<b>9,295</b>	<b>(6,815)</b>	<b>2,480</b>	8,075	(4,199)	3,876
Total intangible assets	<b>\$80,251</b>	<b>\$(46,650)</b>	<b>\$33,601</b>	\$61,131	\$(37,148)	\$23,983

During the years ended March 30, 2007 and March 31, 2006, we acquired total goodwill of \$37.9 million and \$8.6 million, respectively.

#### NOTE 4

##### Line of Credit

On January 31, 2005, the Company entered into a three-year, \$60 million revolving credit facility (the "New Facility") in the form of a Second Amended and Restated Revolving Loan Agreement. The New Facility amended and restated ViaSat's existing \$30 million revolving credit facility that was scheduled to expire on February 28, 2005 (the "Prior Facility").

Borrowings under the New Facility are permitted up to a maximum amount of \$60 million, including up to \$15 million of letters of credit. Borrowings under the New Facility bear interest, at ViaSat'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). As with the Prior Facility, the New Facility is collateralized by substantially all of ViaSat's personal property assets. At March 30, 2007, the Company had \$4.3 million outstanding under standby letters of credit leaving borrowing availability under our line of credit of \$55.7 million.

The New 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. The Company is in compliance with our loan covenants as of March 30, 2007.

## NOTE 5

### Common Stock and Stock Plans

In April 2007, the Company filed a new universal shelf registration statement with the SEC for the future sale of up to an additional \$200 million of debt securities common stock, preferred stock, depository shares and warrants. Additionally, the Company had available \$200 million of these securities, which were previously registered under shelf registration statements the Company filed in June 2004 and September 2001. Up to an aggregate of \$400 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.

In November 1996, the Company adopted the 1996 Equity Participation Plan. The 1996 Equity Participation Plan provides for the grant to executive officers, other key employees, consultants and non-employee directors of the Company a broad variety of stock-based compensation alternatives such as nonqualified stock options, incentive stock options, restricted stock and performance awards. In September 2000, the Company amended the 1996 Equity Participation Plan to increase the maximum number of shares reserved for issuance under this plan from 2,500,000 shares to 6,100,000 shares. In September 2003, the Company further amended the 1996 Equity Participation Plan to increase the maximum number of shares reserved for issuance under this plan from 6,100,000 shares to 7,600,000 shares. In October 2006, the Company amended the 1996 Equity Participation Plan to increase the maximum number of shares reserved for issuance under this plan from 7,600,000 shares to 10,600,000 shares. The Company believes that such awards better align the interests of its employees with those of its stockholders. Shares of the Company's common stock granted under the Plan in the form of stock options or stock appreciation right are counted against the Plan share reserve on a one for one basis. Shares of the Company's common stock granted under the Plan as an award other than as an option or as a stock appreciation right with a per share purchase price lower than 100% of fair market value on the date of grant are counted against the Plan share reserve as two shares for each share of common stock. Option awards are 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. Restricted stock units are granted to eligible employees and directors and represent rights to receive shares of common stock at a future date. As of March 30, 2007, the Company had granted options, net of cancellations, and restricted stock units, net of cancellations, to purchase 7,917,889 and 389,514 shares of common stock, respectively, under the Plan.

In November 1996, the Company adopted the ViaSat, Inc. Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") to assist employees in acquiring a stock ownership interest in the Company and to encourage them to remain in the employment of the Company. The Employee Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. In September 2005, the Company amended the Employee Stock Purchase Plan to increase the maximum number of shares reserved for issuance under this plan from 1,000,000 shares to 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 March 30, 2007, the Company had issued 1,098,582 shares of common stock under this plan.

In January 2002, the Company assumed the US Monolithics 2000 Incentive Plan (the "USM Plan") which was amended and restated in January 2002. Pursuant to such assumption, all options granted under the USM Plan were converted into options to purchase common stock of the Company. The number of shares of common stock reserved for issuance under this plan is 203,000. As of March 30, 2007, options to purchase 196,792 shares of common stock had been granted under this plan, net of cancellations, 44,418 of which were converted from previously issued US Monolithics options. The options granted under this plan have an exercise price equal to the market value of the underlying common stock on the date of grant.

In December 2005, under the terms of the acquisition agreement, the Company assumed the Efficient Channel Coding 2000 Long Term Incentive Plan (the "ECC Plan"). Pursuant to the acquisition agreement, all options granted under the ECC Plan were converted into options to

purchase common stock of the Company. The number of shares of common stock reserved for issuance under this plan is 23,424. As of March 30, 2007, options to purchase 23,424 shares of common stock had been granted under this plan, all of which were converted from previously issued ECC options. The options granted under this plan have an exercise price equal to the market value of the underlying common stock on the date of grant.

On March 30, 2006, the Board of Directors of the Company accelerated the vesting of certain unvested employee stock options previously awarded to the Company's employees under the Company's 1996 Equity Participation Plan. Stock options held by the Company's non-employee directors were not accelerated. Options to purchase approximately 1.5 million shares of common stock were subject to this acceleration. All of the accelerated options were "in-the-money" and had exercise prices ranging from \$4.70 to \$26.94. All other terms and conditions applicable to such options, including the exercise prices, remain unchanged. As a result, the Company recorded \$1.5 million in compensation expense in accordance with generally accepted accounting principles. The accelerated stock options are subject to lock-up restrictions preventing the sale of any shares acquired through the exercise of an accelerated stock option prior to the date on which the exercise would have been permitted under the stock option's original vesting terms. The decision to accelerate vesting of these options was made primarily to eliminate the recognition of the related compensation expense in the Company's future consolidated financial statements with respect to these unvested stock options upon adopting SFAS 123R. The Company recognized a pre-tax charge for estimated compensation expense of approximately \$1.5 million in the fiscal fourth quarter ended March 31, 2006 after considering expected employee turnover rates to reflect, absent the acceleration, the "in-the-money" value of accelerated stock options the Company estimates would have been forfeited (unvested) pursuant to their original terms.

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

	Number of Shares	Exercise Price per Share	Weighted Average Exercise Price per Share
Outstanding at April 2, 2004	5,074,808	\$ 4.25–\$ 43.82	\$ 14.83
Options granted	1,296,000	16.94– 22.82	19.52
Options canceled	(126,353)	6.06– 43.82	19.36
Options exercised	(230,094)	4.69– 22.03	8.86
Outstanding at April 1, 2005	6,014,361	4.25– 43.82	15.98
Options granted	345,274	5.03– 26.94	21.75
Options canceled	(67,109)	5.03– 25.01	18.69
Options exercised	(592,380)	4.70– 27.94	12.42
Outstanding at March 31, 2006	5,700,146	4.25– 43.82	16.70
Options granted	928,850	23.85– 33.68	26.68
Options canceled	(55,244)	5.03– 28.91	20.63
Options exercised	(894,199)	4.25– 27.94	13.58
<b>Outstanding at March 30, 2007</b>	<b>5,679,553</b>	<b>\$ 4.70–\$43.82</b>	<b>\$18.78</b>

All options issued under the Company's stock option plans have an exercise price equal to the fair market value of the Company's stock on the date of the grant.

The following table summarizes all options outstanding and exercisable by price range as of March 30, 2007:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life—Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 4.70–\$10.73	1,086,042	3.97	\$ 8.90	1,079,237	\$ 8.92
11.08– 15.38	571,633	4.51	13.49	571,633	13.49
15.54– 18.71	459,180	6.20	17.44	443,180	17.41
18.73– 18.73	691,120	7.61	18.73	691,120	18.73
18.97– 21.83	539,535	6.99	20.84	517,870	20.87
22.03– 22.03	927,657	3.49	22.03	927,657	22.03
22.10– 26.13	478,436	6.49	24.12	249,940	23.72
26.15– 26.15	585,750	5.53	26.15	—	—
26.16– 35.63	334,200	4.79	28.56	185,600	26.58
43.82– 43.82	6,000	2.93	43.82	6,000	43.82
4.70– 43.82	<u>5,679,553</u>	5.28	\$18.78	<u>4,672,237</u>	\$17.20

## NOTE 6

## Shares Used in Earnings Per Share Calculations

Years Ended	March 30, 2007	March 31, 2006	April 1, 2005
Weighted average common shares outstanding used in calculating basic net income per share	28,589,144	27,132,973	26,748,597
Weighted average options to purchase common stock as determined by application of the treasury stock method	2,129,238	1,722,087	1,396,434
Weighted average restricted stock unit to acquire common stock as determined by application of the treasury stock method	17,804	—	—
Weighted average contingently issuable shares in connection with certain terms of the Enerdyne acquisition agreement (Note 13)	138,264	—	—
Employee Stock Purchase Plan equivalents	18,988	2,227	2,141
Shares used in computing diluted net income per share	30,893,438	28,857,287	28,147,172

Antidilutive shares relating to stock options excluded from the calculation were 511,253, 255,771 and 1,580,997 shares for the fiscal years ended March 30, 2007, March 31, 2006, and April 1, 2005, respectively.

## NOTE 7

## Income Taxes

The provision for income taxes includes the following:

Years Ended (In thousands)	March 30, 2007	March 31, 2006	April 1, 2005
Current tax provision			
Federal	\$10,781	\$ 9,613	\$ 3,563
State	191	769	845
Foreign	137	128	191
	11,109	10,510	4,599
Deferred tax (benefit) provision			
Federal	(3,269)	(2,543)	(2,077)
State	(1,085)	(2,862)	(1,276)
Foreign	—	—	—
	(4,354)	(5,405)	(3,353)
Total provision for income taxes	\$ 6,755	\$ 5,105	\$ 1,246

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

As of (In thousands)	March 30, 2007	March 31, 2006
Deferred tax assets:		
Tax credit carryforwards	\$13,076	\$ 9,329
Warranty reserve	3,895	3,306
Property, equipment and intangible assets	—	1,351
Accrued vacation	2,560	2,020
Deferred rent	1,516	1,253
Inventory reserve	1,672	1,000
Stock compensation	1,967	220
Other	1,484	589
Valuation allowance	(403)	(303)
Total deferred tax assets	25,767	18,765
Deferred tax liabilities:		
Property, equipment and intangible assets	2,718	—
Total deferred tax liabilities	2,718	—
Net deferred tax assets	\$23,049	\$18,765



A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows:

Years Ended (In thousands)	March 30, 2007	March 31, 2006	April 1, 2005
Tax expense at statutory rate	<b>\$13,016</b>	\$10,056	\$ 7,296
State tax provision, net of federal benefit	<b>1,595</b>	1,277	982
Tax credits, net	<b>(7,727)</b>	(5,772)	(5,480)
Export sales tax benefit	<b>(351)</b>	(578)	(1,548)
Other	<b>222</b>	122	(4)
<b>Total provision for income taxes</b>	<b>\$ 6,755</b>	\$ 5,105	\$ 1,246

As of March 30, 2007, the Company had federal and state research credit carryforwards of approximately \$6.8 million and \$8.8 million, respectively, that begin to expire in 2025 and 2020, respectively.

In accordance with SFAS No. 109, "Accounting for Income Taxes," net deferred tax assets are reduced by a valuation allowance if, based on all the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. A valuation allowance of \$403,000 at March 30, 2007 and \$303,000 at March 31, 2006 has been established relating to state research credit carryforwards that, based on management's estimate of future taxable income attributable to certain states and generation of additional research credits, are considered more likely than not to expire unused.

In addition, in determining the value of income tax liabilities, the Company makes estimates of the results of future examinations of its income tax returns by taxing authorities. The Company believes it has adequately provided for additional taxes in its financial statements which the Company estimates may result from these examinations. If these amounts provided prove to be more than what is necessary, the reversal of the reserves would result in tax benefits being recognized in the period in which the Company determines the liability is no longer necessary. If an ultimate tax assessment exceeds the Company's estimate of tax liabilities, an additional charge to expense will result.

If the Company has an "ownership change" as defined under Internal Revenue Code Section 382, it may have an annual limitation on the utilization of its tax credit carryforwards.

#### NOTE 8

### Employee Benefits

The Company is a sponsor of a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code. The Company may make discretionary contributions to the plan which vest equally over six years. Employees who are at least 18 years of age are eligible to participate in the plan. Participants are entitled, upon termination or retirement, to their vested portion of the plan assets which are held by an independent trustee. Discretionary contributions accrued by the Company during fiscal years 2007, 2006 and 2005 amounted to \$3.9 million, \$3.2 million and \$2.8 million, respectively. The cost of administering the plan is not significant.

#### NOTE 9

### Commitments

The Company leases office facilities under non-cancelable operating leases with initial terms ranging from one to ten years which expire between April 2007 and February 2017 and provide for pre-negotiated fixed rental rates during the terms of the lease. Certain of the Company's facilities leases contain option provisions which allow for extension of the lease terms.

For operating leases, minimum lease payments, including minimum scheduled rent increases, are recognized as rent expense on a straight-line basis over the lease term as that term is defined in SFAS No. 13, as amended, including any option periods considered in the lease term and any periods during which the Company has use of the property but is not charged rent by a landlord ("rent holiday"). The Company has accrued for rent expense incurred but not paid. Leasehold improvement incentives paid to the Company by a landlord are recorded as a liability and amortized as a reduction of rent expense over the lease term. Total rent expense was \$8.2 million, \$7.6 million and \$7.1 million in fiscal years 2007, 2006 and 2005, respectively.

Future minimum lease payments are as follows (in thousands):

Years Ending,	
2008	\$ 9,385
2009	9,168
2010	9,371
2011	9,219
2012	8,765
Thereafter	37,576
	<b>\$83,484</b>

#### NOTE 10

### Contingencies

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

#### NOTE 11

### Derivatives

During the fiscal years 2007 and 2006, the Company settled certain foreign exchange contracts, recognizing a loss of \$136,000 and \$347,000, respectively, recorded as cost of revenues based on the nature of the underlying transaction. During the fiscal year 2007, the Company also entered into foreign currency exchange contract intended to reduce the foreign currency risk for amounts payable to vendors in Euros which have a maturity of less than six months. There were no outstanding foreign currency contracts as of March 30, 2007. We had \$4.1 million of notional value of foreign currency forward contracts outstanding at March 31, 2006.

#### NOTE 12

### Product Warranty

The Company provides limited warranties on most of its products for periods of up to five years. The Company records a liability for its warranty obligations when products are delivered 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 cost, the Company bases its estimates on its experience with the technology involved and the types of failure that may occur. It is possible that its 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 the Company's warranty accrual in fiscal years 2007, 2006 and 2005.

Years Ended (In thousands)	March 30, 2007	March 31, 2006	April 1, 2005
Balance, beginning of period	<b>\$ 8,369</b>	\$ 7,179	\$ 4,451
Change in liability for warranties issued in period	<b>7,347</b>	4,309	4,737
Settlements made (in cash or in kind) during the period	<b>(5,853)</b>	(3,119)	(2,009)
Balance, end of period	<b>\$ 9,863</b>	\$ 8,369	\$ 7,179

## NOTE 13

## Acquisitions

**ACQUISITION OF INTELLIGENT COMPRESSION TECHNOLOGIES, INC.** On February 16, 2007, the Company completed the acquisition of all of the outstanding capital stock of ICT, a privately-held provider to corporations, internet service providers (ISPs), and satellite/wireless carriers of data compression techniques, advanced transport protocols, and application optimization to increase the speeds of either narrowband or broadband terrestrial, wireless, or satellite services. The initial purchase price of approximately \$20.7 million was comprised primarily of \$13.3 million related to the fair value of 414,073 shares of the Company's common stock issued at the closing date, \$7.2 million in cash consideration, and approximately \$200,000 in direct acquisition costs. The \$7.2 million in cash consideration paid to the former ICT stockholders plus approximately \$200,000 in direct acquisition costs less cash acquired of \$32,000 resulted in a net cash outlay of approximately \$7.4 million. Under the terms of the purchase agreement, up to an additional \$34.3 million in consideration is payable in cash and/or stock, at the Company's option, based on ICT achieving certain earnings performance over certain 12-month periods during the two years following closing (as well as projected earnings performance for the one-year period thereafter). No portion of this additional consideration is guaranteed. The additional consideration, if earned, is payable after the 12-month period in which ICT achieves the specified earnings performance and will be recorded as additional purchase price.

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

(In thousands)	February 16, 2007
Current assets	\$ 744
Identifiable intangible assets	12,550
Goodwill	12,673
Total assets acquired	25,967
Liabilities assumed	(5,275)
Total purchase price	\$20,692

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

(In thousands)	
Customer relationships (5-year weighted average life)	\$ 930
Technology (5-year weighted average life)	11,000
Non-compete agreements (4-year weighted average life)	550
Trade name (4-year weighted average life)	70
Total identifiable intangible assets	\$12,550

The acquisition of ICT is beneficial to ViaSat because it adds complementary technologies and provides additional business opportunities. We believe that the ICT Accelenet family of products speeds web browsing and accelerates leading office applications, while simultaneously reducing network congestion. The benefit of these products can be offered to many of our consumer, enterprise, or government customers. These benefits and additional opportunities 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 ICT tax attributes.

The consolidated financial statements include the operating results of ICT from the date of acquisition. 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.

**ACQUISITION OF ENERDYNE TECHNOLOGIES, INC.** On June 20, 2006, the Company completed the acquisition of all of the outstanding capital stock of 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, \$500,000 in cash consideration, and \$700,000 in direct acquisition costs. The \$1.2 million of cash consideration paid to the former Enerdyne stockholders

and the transaction expenses paid less cash acquired of \$900,000 resulted in a net cash outlay of approximately \$281,000. Up to an additional \$8.7 million in consideration is payable in cash and stock under the terms of the acquisition agreement 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 additional consideration is guaranteed.

As of March 30, 2007, Enerdyne achieved financial results entitling the former Enerdyne stockholders to \$5.9 million of additional consideration. On May 3, 2007, the Company issued 170,763 shares of common stock and \$260,000 in cash in full settlement of all additional consideration provisions and the \$5.9 million payable outstanding at March 30, 2007. The additional purchase price consideration of \$5.9 million was recorded as additional government segment goodwill in the fourth quarter of fiscal year 2007. During March 2007, a \$1.5 million adjustment reducing goodwill was made to the final purchase price allocation for Enerdyne as certain tax matters were resolved regarding utilization of Enerdyne's net operating losses as tax deductions in the future resulting in deferred tax asset being recorded.

The final allocation of purchase price of the acquired assets and assumed liabilities based on the estimated fair values is as follows (in thousands):

Current assets	\$ 3,543
Property, plant and equipment	343
Identifiable intangible assets	6,570
Goodwill	16,134
Other assets	1,473
Total assets acquired	28,063
Liabilities assumed	(4,666)
Total purchase price	\$23,397

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
Technology (4.5-year weighted average life)	2,600
Non-compete agreements (4-year weighted average life)	420
Backlog (8-month 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 our 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 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.

**ACQUISITION OF EFFICIENT CHANNEL CODING, INC.** On December 1, 2005, the Company completed the acquisition of all of the outstanding capital stock of ECC, a privately-held designer and supplier of broadband communication integrated circuits and satellite communication systems. The initial purchase price of approximately \$16.6 million was comprised primarily of \$15.8 million in cash consideration, \$227,000 in direct acquisition costs and \$525,000 related to the fair value of options exchanged at the closing date. The \$16.1 million of cash consideration less cash acquired of approximately \$70,000 resulted in a net cash outlay of approximately \$16.0 million. Up to an additional \$9.0 million in consideration is payable in cash and/or stock at the Company's option on or prior to the eighteen (18) month anniversary of the closing date based on ECC meeting certain financial performance targets.

On May 23, 2006, the Company agreed to pay the maximum additional consideration amount to the former ECC stockholders in the amount of \$9.0 million which has been accrued as of March 30, 2007. The \$9.0 million was payable 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.



The final allocation of purchase price of the acquired assets and assumed liabilities based on the estimated fair values was as follows (in thousands):

Current assets	\$ 1,513
Property, plant and equipment	179
Identifiable intangible assets	9,800
Goodwill	17,641
Other assets	34
<hr/>	
Total assets acquired	29,167
Current liabilities	(3,016)
Other long-term liabilities	(853)
<hr/>	
Total liabilities assumed	(3,869)
Deferred stock-based compensation	291
<hr/>	
Total purchase price	<u>\$25,589</u>

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

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

(In thousands)

Customer relationships (10-year weighted average life)	\$5,700
Technology (6-year weighted average life)	2,900
Backlog (1-year weighted average life)	1,200
<hr/>	
Total identifiable intangible assets	<u>\$9,800</u>

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

The consolidated financial statements include the operating results of ECC from the date of acquisition in the Company's Satellite Networks product group in the commercial segment. Pro forma results of operations have not been presented because the effect of the acquisition was insignificant to the financial statements for all periods presented.

#### NOTE 14

### Segment Information

The Company's 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 possesses economic characteristics, which differ from the commercial segment. Therefore, the Company is organized primarily on the basis of products with commercial and government (defense) communication applications. These product groups are distinguished from one another based upon their underlying technologies. Prior segment results have been reclassified to conform to our current organizational structure. Reporting segments are determined consistent with the way that management organizes and evaluates financial information internally for making operating decisions and assessing performance. The following table summarizes revenues and operating profits by reporting segment for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005. Certain corporate general and administrative costs, amortization of intangible assets and charges of acquired in-process research and development are not allocated to either segment and accordingly, are shown as reconciling items from segment operating profit

and consolidated operating profit. Certain assets are not tracked by reporting segment. Depreciation expense is allocated to reporting segments as an overhead charge based on direct labor dollars within the reporting segments.

Years Ended (In thousands)	March 30, 2007	March 31, 2006	April 1, 2005
Revenues			
Government	\$270,746	\$210,640	\$175,442
Commercial			
Satellite Networks	206,208	182,265	137,971
Antenna Systems	39,612	47,191	39,420
	<b>245,820</b>	229,456	177,391
Elimination of intersegment revenues	—	(6,273)	(6,894)
<b>Total revenues</b>	<b>\$516,566</b>	<b>\$433,823</b>	<b>\$345,939</b>
Operating profits (losses)			
Government	\$ 41,687	\$ 41,908	\$ 28,060
Commercial			
Satellite Networks	4,375	(6,811)	(1,748)
Antenna Systems	(687)	3,887	3,639
	<b>3,688</b>	(2,924)	1,891
Elimination of intersegment operating profits	—	(3,061)	(778)
Segment operating profit before corporate and amortization	<b>45,375</b>	35,923	29,173
Corporate	(428)	(187)	(2,207)
Amortization of intangibles <sup>(1)</sup>	(9,502)	(6,806)	(6,642)
<b>Income from operations</b>	<b>\$ 35,445</b>	<b>\$ 28,930</b>	<b>\$ 20,324</b>

(1) Amortization of intangibles relate to the commercial and government segment. Amortization of intangibles for Satellite Networks was \$6.9 million, \$6.2 million and \$6.0 million for the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, respectively. Amortization for Antenna Systems was \$655,000 for each of the fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005, respectively. Amortization of intangibles for the government segment was \$1.9 million for the fiscal years ended March 30, 2007. There was no amortization of intangibles for the government segment for the fiscal year 2006 and 2005.

(In thousands)	March 30, 2007	March 31, 2006
Segment assets <sup>(2)</sup>		
Government	\$106,442	\$ 77,269
Commercial		
Satellite Networks	156,709	140,346
Antenna Systems	22,704	27,330
	<b>179,413</b>	167,676
Corporate assets	<b>198,084</b>	120,124
<b>Total</b>	<b>\$483,939</b>	<b>\$365,069</b>

(2) Assets identifiable to segments include: accounts receivable, unbilled accounts receivable, inventory, intangible assets and goodwill. At March 30, 2007 Satellite Networks had \$46.2 million of goodwill and \$27.6 million in net intangible assets, Antenna Systems had \$3.6 million of goodwill and \$1.4 million in net intangible assets, and government segment had \$16.1 million of goodwill and \$4.6 million in net intangible assets. On 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 fiscal years ended March 30, 2007, March 31, 2006 and April 1, 2005 is as follows:

Years Ended (In thousands)	March 30, 2007	March 31, 2006	April 1, 2005
United States	\$434,458	\$355,459	\$253,045
Europe, Middle East and Africa	33,930	28,003	44,617
Asia Pacific	21,927	27,855	29,137
North America other than United States	16,706	16,787	12,953
Latin America	9,545	5,719	6,187
	<b>\$516,566</b>	<b>\$433,823</b>	<b>\$345,939</b>

The Company distinguishes 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 \$313,000 and \$341,000 at March 30, 2007 and March 31, 2006, respectively.

## Schedule II: Valuation and Qualifying Accounts

### For the Three Years Ended March 30, 2007

Date (In thousands)	Allowance for Doubtful Accounts
Balance, April 2, 2004	\$ 379
Provision	234
Write-off	(450)
Balance, April 1, 2005	\$ 163
Provision	246
Write-off	(144)
Balance, March 31, 2006	\$ 265
Provision	1,215
Write-off	(266)
<b>Balance, March 30, 2007</b>	<b>\$ 1,214</b>

Date (In thousands)	Deferred Tax Asset Valuation
Balance, April 2, 2004	\$ —
Provision	769
Write-off	—
Balance, April 1, 2005	\$ 769
Provision	303
Write-off	(769)
Balance, March 31, 2006	\$ 303
Provision	100
Write-off	—
<b>Balance, March 30, 2007</b>	<b>\$ 403</b>

## Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

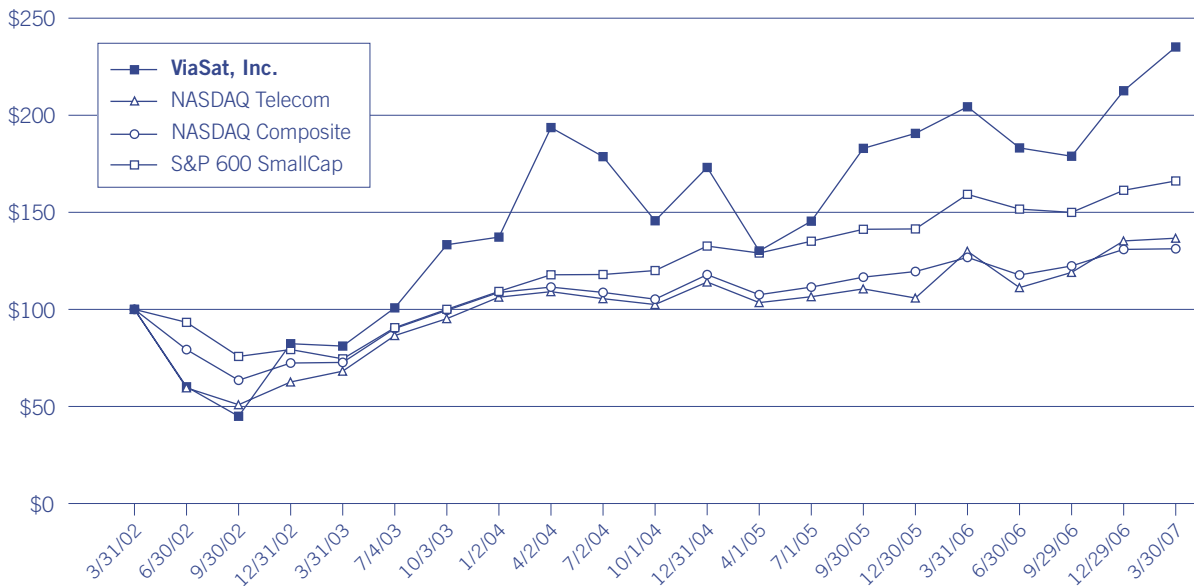
Our common stock is traded on the Nasdaq Global Market under the symbol "VSAT." The following table sets forth the range of high and low sales prices on the Nasdaq Global Market of our common stock for the periods indicated, as reported by Nasdaq. Such quotations represent inter-dealer prices without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

	High	Low
<b>Fiscal 2006</b>		
First Quarter	\$ 23.20	\$ 17.30
Second Quarter	25.72	20.14
Third Quarter	28.84	23.16
Fourth Quarter	29.17	24.63
<b>Fiscal 2007</b>		
First Quarter	<b>\$30.83</b>	<b>\$23.65</b>
Second Quarter	<b>28.21</b>	<b>22.32</b>
Third Quarter	<b>30.45</b>	<b>24.36</b>
Fourth Quarter	<b>36.00</b>	<b>27.88</b>

To date, we have neither declared nor paid any dividends on our common stock. We currently intend to retain all future earnings, if any, for use in the operation and development of our business and, therefore, do not expect to declare or pay any cash dividends on our common stock in the foreseeable future. In addition, our credit facility restricts our ability to pay dividends. As of May 23, 2007, there were 574 holders of record of our common stock. On May 23, 2007, the last sale price reported on the Nasdaq Global Market for our common stock was \$32.53 per share.

## Performance Graph

The following graph shows the value of an investment of \$100 in cash on March 31, 2002 in (1) ViaSat's common stock, (2) the NASDAQ Telecommunications Index, (3) the NASDAQ Composite Index and (4) the S&P 600 SmallCap Index. The graph assumes that all dividends were reinvested. The stock price performance shown on the graph is not necessarily indicative of future performance. The information contained under this heading "Performance Graph" is not "soliciting material," is not deemed "filed" with the Securities and Exchange Commission (SEC) and is not to be incorporated by reference in any filing of ViaSat under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.





# Corporate Information

## BOARD OF DIRECTORS

**Mark D. Dankberg**  
Chairman of the Board  
CEO, ViaSat, Inc.

**Dr. Robert W. Johnson**  
Independent Director

**B. Allen Lay**  
Independent Director

**Dr. Jeffrey M. Nash**  
Independent Director

**John P. Stenbit**  
Independent Director

**Michael B. Targoff**  
Independent Director

**Harvey P. White**  
Independent Director

## CORPORATE OFFICERS

**Mark D. Dankberg**  
Chairman of the Board, CEO

**Richard A. Baldrige**  
President, COO

**H. Stephen Estes**  
Vice President, Human Resources

**Kevin J. Harkenrider**  
Vice President, Operations

**Steven R. Hart**  
Vice President, Engineering and  
Chief Technical Officer

**Keven K. Lippert**  
Vice President, General Counsel

**Mark J. Miller**  
Vice President, Chief Technical Officer

**Gregory D. Monahan**  
Senior Vice President

**Ronald G. Wangerin**  
Vice President, CFO

## LISTING

ViaSat, Inc. is listed on the Nasdaq Stock Market under the trading symbol VSAT.

## INDEPENDENT ACCOUNTANTS

**PricewaterhouseCoopers LLP**  
750 B Street, Suite 2900  
San Diego, California 92101

## GENERAL LEGAL COUNSEL

**Latham & Watkins**  
12636 High Bluff Drive, Suite 300  
San Diego, California 92130

## TRANSFER AGENT AND REGISTRAR

**Computershare Investor Services**  
2 N. LaSalle Street  
Chicago, Illinois 60602

## ANNUAL MEETING

Wednesday, October 3, 2007, 8:30 a.m.  
ViaSat, Inc., Founders Hall  
Carlsbad, California

## FORM 10-K

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

## Investor Relations

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760-476-2633  
[ir@viasat.com](mailto:ir@viasat.com)

## SAFE HARBOR STATEMENT

Portions of this annual report, particularly the letter from our Chairman and CEO and statements about future products and expected markets, may contain projections or other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. ViaSat wishes to caution you that there are some factors that could cause actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements, including but not limited to: ViaSat's ability to perform under existing contracts and obtain additional contracts, ViaSat's ability to develop new products that gain market acceptance, changes in product supply, pricing and customer demand, changes in relationships with, or the financial condition of, key customers or suppliers, manufacturing issues or delays, product design flaws or defects, ViaSat's ability to successfully integrate acquired companies, changes in government regulations, changes in economic conditions globally and in the communications market in particular, increased competition, potential product liability, infringement and other claims, and other factors affecting the communications industry generally. ViaSat refers you to the documents it files from time to time with the Securities and Exchange Commission, specifically the section titled Risk Factors in ViaSat's Forms 10-K and 10-Q. These documents contain and identify other important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements. Shareholders and other readers are cautioned not to put undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

**VIASAT, INC.**

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