VIASAT INC
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2013.

OR

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

For the transition period from to .

Commission File Number (000-21767)

ViaSat, Inc.

(Exact name of registrant as specified in its charter)

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

6155 El Camino Real

Carlsbad, California 92009

(760) 476-2200

(Address of principal executive offices and telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The number of shares outstanding of the registrant s common stock, $0.0001 par value, as of July 22, 2013 was 45,440,010 .

VIASAT, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	As of June 28, 2013	As of March 29, 2013
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79,682	$ 105,738
Accounts receivable, net	260,701	266,970
Inventories	125,692	106,281
Deferred income taxes	25,015	25,065
Prepaid expenses and other current assets	39,229	40,819
Total current assets	530,319	544,873
Satellites, net	559,244	535,090
Property and equipment, net	399,213	378,691
Other acquired intangible assets, net	46,123	47,170
Goodwill	82,632	83,000
Other assets	219,740	205,248
Total assets	$ 1,837,271	$ 1,794,072
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 121,309	$ 83,009
Accrued liabilities	145,370	161,909
Current portion of other long-term debt	1,910	2,230
Total current liabilities	268,589	247,148
Senior notes, net	584,717	584,993
Other long-term debt	1,456	1,456
Other liabilities	52,548	52,640
Total liabilities	907,310	886,237
Commitments and contingencies (Note 8)		
Equity:		
ViaSat, Inc. stockholders equity		
Common stock	5	4
Paid-in capital	738,965	715,115
Retained earnings	219,212	221,046
Common stock held in treasury	(34,043)	(33,770)
Accumulated other comprehensive income	641	606
Total ViaSat, Inc. stockholders equity	924,780	903,001

Noncontrolling interest in subsidiary	5,181	4,834
Total equity	929,961	907,835
Total liabilities and equity	$ 1,837,271	$ 1,794,072

See accompanying notes to the condensed consolidated financial statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended	
	June 28, 2013	June 29, 2012
	(In thousands, except per share data)	
Revenues:		
Product revenues	$ 182,161	$ 147,729
Service revenues	138,941	94,034
Total revenues	321,102	241,763
Operating expenses:		
Cost of product revenues	129,414	109,049
Cost of service revenues	105,893	78,569
Selling, general and administrative	64,781	56,501
Independent research and development	14,089	7,369
Amortization of acquired intangible assets	3,501	4,064
Income (loss) from operations	3,424	(13,789)
Other income (expense):		
Interest income	21	60
Interest expense	(10,163)	(11,546)
Loss before income taxes	(6,718)	(25,275)
Benefit from income taxes	(5,231)	(10,842)
Net loss	(1,487)	(14,433)
Less: Net income (loss) attributable to the noncontrolling interest, net of tax	347	(13)
Net loss attributable to ViaSat, Inc.	$ (1,834)	$ (14,420)
Basic net loss per share attributable to ViaSat, Inc. common stockholders	$ (0.04)	$ (0.33)
Diluted net loss per share attributable to ViaSat, Inc. common stockholders	$ (0.04)	$ (0.33)
Shares used in computing basic net loss per share	45,110	43,182
Shares used in computing diluted net loss per share	45,110	43,182
Comprehensive income (loss):		
Net loss	$ (1,487)	$ (14,433)
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on hedging, net of tax	77	(89)
Foreign currency translation adjustments, net of tax	(42)	(612)
Other comprehensive income (loss), net of tax	35	(701)
Comprehensive loss	(1,452)	(15,134)
Less: comprehensive income (loss) attributable to the noncontrolling interest, net of tax	347	(13)
Comprehensive loss attributable to ViaSat, Inc.	$ (1,799)	$ (15,121)

See accompanying notes to the condensed consolidated financial statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended June 28, 2013	Three Months Ended June 29, 2012
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (1,487)	$ (14,433)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	36,226	31,154
Amortization of intangible assets	5,889	5,563
Deferred income taxes	(5,888)	(10,888)
Stock-based compensation expense	7,490	6,619
Loss on disposition of fixed assets	6,036	1,832
Other non-cash adjustments	1,200	1,165
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	5,474	(10,607)
Inventories	(14,245)	(10,274)
Other assets	1,728	(2,194)
Accounts payable	18,994	2,306
Accrued liabilities	(8,012)	(4,277)
Other liabilities	417	4,825
Net cash provided by operating activities	53,822	791
Cash flows from investing activities:		
Purchase of property, equipment and satellites	(73,030)	(36,882)
Cash paid for patents, licenses and other assets	(11,776)	(6,327)
Payment related to acquisition of business, net of cash acquired	(2,400)	
Net cash used in investing activities	(87,206)	(43,209)
Cash flows from financing activities:		
Payment of debt issuance costs		(2,215)
Proceeds from issuance of common stock under equity plans	8,279	4,635
Purchase of common stock in treasury	(273)	(2,020)
Other	(574)	(560)
Net cash provided by (used in) financing activities	7,432	(160)
Effect of exchange rate changes on cash	(104)	(113)
Net decrease in cash and cash equivalents	(26,056)	(42,691)
Cash and cash equivalents at beginning of period	105,738	172,583
Cash and cash equivalents at end of period	$ 79,682	$ 129,892
Non-cash investing and financing activities:		
Issuance of common stock in satisfaction of certain accrued employee compensation liabilities	$ 8,018	$ 7,060

See accompanying notes to the condensed consolidated financial statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(UNAUDITED)

	ViaSat, Inc. Stockholders								
	Common Stock				Common Stock Held in Treasury				
	Number of Shares Issued	Amount	Paid-in Capital	Retained Earnings	Number of Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Subsidiary	Total
	(In thousands, except share data)								
Balance at March 29, 2013	45,921,793	$ 4	$ 715,115	$ 221,046	(947,607)	$ (33,770)	$ 606	$ 4,834	$ 907,835
Exercise of stock options	258,433	1	5,593						5,594
Issuance of stock under Employee Stock Purchase Plan	81,193		2,685						2,685
Stock-based compensation			7,554						7,554
Shares issued in settlement of certain accrued employee compensation liabilities	113,126		8,018						8,018
RSU awards vesting	9,688								
Purchase of treasury shares pursuant to vesting of certain RSU agreements					(3,813)	(273)			(273)
Net (loss) income				(1,834)				347	(1,487)
Other comprehensive income (loss), net of tax (hedging transaction $77; foreign currency translation ($42))							35		35
Balance at June 28, 2013	46,384,233	$ 5	$ 738,965	$ 219,212	(951,420)	$ (34,043)	$ 641	$ 5,181	$ 929,961

See accompanying notes to the condensed consolidated financial statements.

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VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 Basis of Presentation

The accompanying condensed consolidated balance sheet at June 28, 2013, the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended June 28, 2013 and June 29, 2012, the condensed consolidated statements of cash flows for the three months ended June 28, 2013 and June 29, 2012 and the condensed consolidated statement of equity for the three months ended June 28, 2013 have been prepared by the management of ViaSat, Inc. (also referred to hereafter as the Company or ViaSat), and have not been audited. These financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended March 29, 2013 and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the Company s results for the periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended March 29, 2013 included in the Company s Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP).

The Company s condensed consolidated financial statements include the assets, liabilities and results of operations of ViaSat, its wholly owned subsidiaries and TrellisWare Technologies, Inc. (TrellisWare), a majority-owned subsidiary. All significant intercompany amounts have been eliminated.

The Company s fiscal year is the 52 or 53 weeks ending on the Friday closest to March 31 of the specified year. For example, references to fiscal year 2014 refer to the fiscal year ending on April 4, 2014. The Company s quarters for fiscal year 2014 end on June 28, 2013, October 4, 2013, January 3, 2014 and April 4, 2014. This results in a 53 week fiscal year approximately every four to five years. Fiscal year 2014 is a 53 week year, compared with a 52 week year in fiscal year 2013. As a result of the shift in the fiscal calendar, the second quarter of fiscal year 2014 includes an additional week. The Company does not believe that the extra week results in any material impact on its financial results.

During the first quarter of fiscal year 2014, the Company completed the acquisition of LonoCloud, Inc. (LonoCloud), an early-stage privately held company. This acquisition was accounted for as a purchase and, accordingly, the condensed consolidated financial statements include the operating results of LonoCloud from the date of acquisition.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ from those estimates. Significant estimates made by management include revenue recognition, stock-based compensation, self-insurance reserves, allowance for doubtful accounts, warranty accruals, valuation of goodwill and other intangible assets, patents, orbital slots and other licenses, software development, property, equipment and satellites, long-lived assets, derivatives, contingencies and income taxes including the valuation allowance on deferred tax assets.

Revenue recognition

A substantial portion of the Company s revenues is derived from long-term contracts requiring development and delivery of complex equipment built to customer specifications. Sales related to long-term contracts are accounted for under the authoritative guidance for the percentage-of-completion method of accounting (Accounting Standards Codification (ASC) 605-35). Sales and earnings under these contracts are recorded either 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. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable. Changes in estimates of profit or loss on contracts are included in earnings on a cumulative basis in the period the estimate is changed. During the three months ended June 28, 2013 and June 29, 2012, the Company recorded losses of approximately $0.4 million and $1.3 million, respectively, related to loss contracts.

The Company also derives a substantial portion of its revenues from contracts and purchase orders where revenue is recorded on delivery of products or performance of services in accordance with the authoritative guidance for revenue recognition (ASC 605). Under this standard, the Company recognizes revenue when an arrangement exists, prices are determinable, collectability is reasonably assured and the goods or services have been delivered.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The Company also enters into certain leasing arrangements with customers and evaluates the contracts in accordance with the authoritative guidance for leases (ASC 840). The Company s accounting for equipment leases involves specific determinations under the authoritative guidance for leases, which often involve complex provisions and significant judgments. In accordance with the authoritative guidance for leases, the Company classifies the transactions as sales type or operating leases based on: (1) review for transfers of ownership of the equipment to the lessee by the end of the lease term, (2) review of the lease terms to determine if it contains an option to purchase the leased equipment for a price which is sufficiently lower than the expected fair value of the equipment at the date of the option, (3) review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment, and (4) review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Additionally, the Company considers the cancelability of the contract and any related uncertainty of collections or risk in recoverability of the lease investment at lease inception. Revenue from sales type leases is recognized at the inception of the lease or when the equipment has been delivered and installed at the customer site, if installation is required. Revenues from equipment rentals under operating leases are recognized as earned over the lease term, which is generally on a straight-line basis.

In accordance with the authoritative guidance for revenue recognition for multiple element arrangements, the Accounting Standards Update (ASU) 2009-13 (ASU 2009-13), Revenue Recognition (ASC 605) Multiple-Deliverable Revenue Arrangements, which updates ASC 605-25, Revenue Recognition-Multiple element arrangements, of the Financial Accounting Standards Board (FASB) codification, for substantially all of the arrangements with multiple deliverables, the Company allocates revenue to each element based on a selling price hierarchy at the arrangement inception. The selling price for each element is based upon the following selling price hierarchy: vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE are available (a description as to how the Company determines VSOE, TPE and ESP is provided below). If a tangible hardware systems product includes software, the Company determines whether the tangible hardware systems product and the software work together to deliver the product s essential functionality and, if so, the entire product is treated as a nonsoftware deliverable. The total arrangement consideration is allocated to each separate unit of accounting for each of the nonsoftware deliverables using the relative selling prices of each unit based on the aforementioned selling price hierarchy. Revenue for each separate unit of accounting is recognized when the applicable revenue recognition criteria for each element have been met.

To determine the selling price in multiple-element arrangements, the Company establishes VSOE of the selling price using the price charged for a deliverable when sold separately and for software license updates, product support and hardware systems support, based on the renewal rates offered to customers. For nonsoftware multiple-element arrangements, TPE is established by evaluating similar and/or interchangeable competitor products or services in standalone arrangements with similarly situated customers and/or agreements. If the Company is unable to determine the selling price because VSOE or TPE doesn t exist, the Company determines ESP for the purposes of allocating the arrangement by reviewing historical transactions, including transactions whereby the deliverable was sold on a standalone basis and considers several other external and internal factors including, but not limited to, pricing practices including discounting, margin objectives, competition, the geographies in which the Company offers its products and services, the type of customer (i.e., distributor, value added reseller, government agency or direct end user, among others) and the stage of the product lifecycle. The determination of ESP considers the Company s pricing model and go-to-market strategy. As the Company, or its competitors , pricing and go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to its determination of VSOE, TPE and ESP. As a result, the Company s future revenue recognition for multiple-element arrangements could differ materially from those in the current period.

In accordance with the authoritative guidance for shipping and handling fees and costs (ASC 605-45), 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 as a component of cost of revenues.

Collections in excess of revenues and deferred revenues represent cash collected from customers in advance of revenue recognition and are recorded in accrued liabilities for obligations within the next twelve months. Amounts for obligations extending beyond twelve months are recorded within other liabilities in the condensed consolidated financial statements.

Contract costs on U.S. government contracts are subject to audit and review by the Defense Contracting Management Agency (DCMA), the Defense Contract Audit Agency (DCAA), and other U.S. government agencies, as well as negotiations with U.S. government representatives. The Company s incurred cost audits by the DCAA have not been completed for fiscal year 2004 and subsequent fiscal years. Although the Company has recorded contract revenues subsequent to fiscal year 2003 based upon an estimate of costs that the Company believes will be approved upon final audit or review, the Company does not know the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed the Company s estimates, its profitability would be adversely affected. As of June 28, 2013 and March 29, 2013, the Company had $7.2 million in contract-related reserves for its estimate of potential refunds to customers for potential cost adjustments on several multi-year U.S. government cost reimbursable contracts (see Note 8).

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VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Advertising costs

In accordance with the authoritative guidance for advertising costs (ASC 720-35), advertising costs are expensed as incurred. Advertising expenses for the three months ended June 28, 2013 and June 29, 2012 were $2.9 million and $5.5 million, respectively.

Commissions

The Company compensates third parties based on specific commission programs directly related to certain product and service sales and these commissions costs are expensed as incurred.

Property, equipment and satellites

Satellites and other property and equipment are recorded at cost or, in the case of certain satellites and other property acquired, the fair value at the date of acquisition, net of accumulated depreciation. Capitalized satellite costs consist primarily of the costs of satellite construction and launch, including launch insurance and insurance during the period of in-orbit testing, the net present value of performance incentives expected to be payable to satellite manufacturers (dependent on the continued satisfactory performance of the satellites), costs directly associated with the monitoring and support of satellite construction, and interest costs incurred during the period of satellite construction. The Company also constructs gateway facilities, network operations systems and other assets to support its satellites, and those construction costs, including interest, are capitalized as incurred. At the time satellites are placed in service, the Company estimates the useful life of its satellites for depreciation purposes based upon an analysis of each satellite s performance against the original manufacturer s orbital design life, estimated fuel levels and related consumption rates, as well as historical satellite operating trends. The Company computes depreciation using the straight-line method over the estimated useful lives of the assets ranging from two to twenty-four years. Leasehold improvements are capitalized and amortized using the straight-line method over the shorter of the lease term or the life of the improvement. Costs incurred for additions to property, equipment and satellites, together with major renewals and betterments, are capitalized and depreciated over the remaining life of the underlying asset. Costs incurred for maintenance, repairs and minor renewals and betterments are charged to expense as incurred. 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 in operations.

Interest expense is capitalized on the carrying value of assets under construction, in accordance with the authoritative guidance for the capitalization of interest (ASC 835-20). During the three months ended June 28, 2013 and June 29, 2012, the Company capitalized $0.9 million and $0.8 million of interest expense, respectively, with respect to assets under construction.

The Company owns two satellites: ViaSat-1 (its high-capacity Ka-band spot-beam satellite, which was placed into service in January 2012) and WildBlue-1 (which was placed into service in March 2007). During the first quarter of fiscal year 2014, the Company announced the entry into a satellite construction contract for ViaSat-2, a second high-capacity Ka-band satellite. In addition, the Company has an exclusive prepaid lifetime capital lease of Ka-band capacity over the continental United States on Telesat Canada s Anik F2 satellite (which was placed into service in April 2005) and owns related gateway and networking equipment for all of its satellites. The Company periodically reviews the remaining estimated useful life of its satellites to determine if revisions to estimated lives are necessary. The Company procured indoor and outdoor customer premise equipment (CPE) units leased to subscribers under a retail leasing program as part of the Company s satellite services segment, which are reflected in investing activities and property and equipment in the accompanying condensed consolidated financial statements. The Company depreciates the satellites, gateway and networking equipment, CPE units and related installation costs over their estimated useful lives. The total cost and accumulated depreciation of CPE units included in property and equipment, net, as of June 28, 2013 were $190.0 million and $58.4 million, respectively. The total cost and accumulated depreciation of CPE units included in property and equipment, net, as of March 29, 2013 were $170.9 million and $51.5 million, respectively.

Occasionally, the Company may enter into capital lease arrangements for various machinery, equipment, computer-related equipment, software, furniture or fixtures. The Company records amortization of assets leased under capital lease arrangements within depreciation expense.

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VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Patents, orbital slots and other licenses

The Company capitalizes the costs of obtaining or acquiring patents, orbital slots and other licenses. Amortization of intangible assets that have finite lives is provided for by the straight-line method over the shorter of the legal or estimated economic life. As of June 28, 2013 and March 29, 2013, the Company had $3.2 million of capitalized costs related to patents included in other assets. As of June 28, 2013 and March 29, 2013, the Company had $13.5 million and $8.6 million, respectively, of capitalized costs related to acquiring and obtaining orbital slots and other licenses included in other assets. Accumulated amortization related to these assets was approximately $0.7 million as of June 28, 2013 and March 29, 2013. Amortization expense related to these assets was an insignificant amount for the three months ended June 28, 2013 and June 29, 2012. If a patent, orbital slot or orbital license is rejected, abandoned or otherwise invalidated, the unamortized cost is expensed in that period. During the three months ended June 28, 2013 and June 29, 2012, the Company did not write off any significant costs due to abandonment or impairment.

Debt issuance costs

Debt issuance costs are amortized and recognized as interest expense on a straight-line basis over the expected term of the related debt, the results of which are not materially different from the effective interest rate basis. During the three months ended June 28, 2013, no amounts were paid for debt issuance costs. During the three months ended June 29, 2012, the Company paid and capitalized debt issuance costs of approximately $2.2 million. Unamortized debt issuance costs related to extinguished debt are expensed at the time the debt is extinguished and recorded in loss on extinguishment of debt in the consolidated statements of operations and comprehensive income (loss). Other unamortized debt issuance costs are recorded in prepaid expenses and other current assets and in other long-term assets in the consolidated balance sheets, depending on the amounts expected to be amortized to interest expense within the next twelve months.

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, generally within five years. Capitalized costs, net, of $64.6 million and $60.6 million related to software developed for resale were included in other assets as of June 28, 2013 and March 29, 2013, respectively. The Company capitalized $6.4 million of costs related to software developed for resale for each of the three months ended June 28, 2013 and June 29, 2012. Amortization expense for software development costs was $2.4 million and $1.5 million for the three months ended June 28, 2013 and June 29, 2012, respectively.

Self-insurance liabilities

The Company has self-insurance plans to retain a portion of the exposure for losses related to employee medical benefits and workers compensation. The self-insurance plans include policies which provide for both specific and aggregate stop-loss limits. The Company utilizes internal actuarial methods as well as other historical information for the purpose of estimating ultimate costs for a particular plan year. Based on these actuarial methods, along with currently available information and insurance industry statistics, the Company has recorded self-insurance liability for its plans of $2.5 million and $2.3 million as of June 28, 2013 and March 29, 2013, respectively. The Company s estimate, which is subject to inherent variability, is based on average claims experience in the Company s industry and its 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 a current liability in accrued liabilities in accordance with the estimated timing of the projected payments.

Indemnification provisions

In the ordinary course of business, the Company includes indemnification provisions in certain of its contracts, generally relating to 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 losses relating to third-party intellectual property claims. To date, there have not been any material costs incurred in connection with such indemnification clauses. The Company s insurance policies do not necessarily cover the cost of defending indemnification claims or providing indemnification, so if a claim was filed against the Company by any party that the Company has agreed to indemnify, the Company could incur substantial legal costs and damages. A claim would be accrued when a loss is considered probable and the amount can be reasonably estimated. At June 28, 2013 and March 29, 2013, no such amounts were accrued related to the aforementioned provisions.

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VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Noncontrolling interest

A noncontrolling interest represents the equity interest in a subsidiary that is not attributable, either directly or indirectly, to the Company and is reported as equity of the Company, separately from the Company s controlling interest. Revenues, expenses, gains, losses, net income (loss) and other comprehensive income (loss) are reported in the condensed consolidated financial statements at the consolidated amounts, which include the amounts attributable to both the controlling and noncontrolling interest.

Common stock held in treasury

During the first three months of fiscal years 2014 and 2013, the Company issued 9,688 and 127,604 shares of common stock, respectively, based on the vesting terms of certain restricted stock unit agreements. In order for employees to satisfy minimum statutory employee tax withholding requirements related to the issuance of common stock underlying these restricted stock unit agreements, the Company repurchased 3,813 and 47,665 shares of common stock with a total value of $0.3 million and $2.0 million during the first three months of fiscal years 2014 and 2013, respectively. Repurchased shares of common stock of 951,420 and 947,607 were held in treasury as of June 28, 2013 and March 29, 2013, respectively.

Derivatives

The Company enters into foreign currency forward and option contracts from time to time 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 other income (expense) as gains (losses) on derivative instruments. Gains and losses arising from the effective portion of foreign currency forward and option contracts which are designated as cash-flow hedging instruments are recorded in accumulated other comprehensive income (loss) as unrealized gains (losses) on derivative instruments until the underlying transaction affects the Company s earnings, at which time they are then recorded in the same income statement line as the underlying transaction.

During the three months ended June 28, 2013 and June 29, 2012, the Company settled certain foreign exchange contracts and in connection therewith recognized a loss of less than $0.1 million and $0.1 million, respectively, recorded in cost of revenues based on the nature of the underlying transactions. The fair value of the Company s foreign currency forward contracts was an accrued liability of $0.2 million and $0.3 million at June 28, 2013 and March 29, 2013, respectively. The notional value of foreign currency forward contracts outstanding as of June 28, 2013 and March 29, 2013 was $9.6 million and $7.0 million, respectively.

At June 28, 2013, the estimated net amount of unrealized gains or losses related to foreign currency forward contracts that was expected to be reclassified to earnings within the next twelve months was approximately $0.2 million. The Company s foreign currency forward contracts outstanding as of June 28, 2013 will mature within one to twenty-three months from their inception. There were no gains or losses from ineffectiveness of these derivative instruments recorded for the three months ended June 28, 2013 and June 29, 2012.

Stock-based compensation

In accordance with the authoritative guidance for share-based payments (ASC 718), the Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award, and recognizes expense on a straight-line basis over the employee s requisite service period. Stock-based compensation expense is recognized in the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended June 28, 2013 and June 29, 2012 only for those awards ultimately expected to vest, with forfeitures estimated at the date of grant. The authoritative guidance for share-based payments requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company recognized $7.5 million and $6.6 million of stock-based compensation expense for the three months ended June 28, 2013 and June 29, 2012, respectively.

For the three months ended June 28, 2013 and June 29, 2012, the Company recorded no incremental tax benefits from stock options exercised and restricted stock unit award vesting as the excess tax benefit from stock options exercised and restricted stock unit award vesting increased the Company s net operating loss carryforward.

Income taxes

Accruals for uncertain tax positions are provided for in accordance with the authoritative guidance for accounting for uncertainty in income taxes (ASC 740). The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The authoritative guidance for accounting for uncertainty in income taxes also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. The Company s policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense.

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Current income tax expense is the amount of income taxes expected to be payable for the current fiscal 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.

The Company s analysis of the need for a valuation allowance considered the losses incurred during the three months ended June 28, 2013 and the fiscal year ended March 29, 2013. The loss in fiscal year 2013 was more significant and a substantial portion of such loss resulted from an extinguishment of debt charge that was recorded upon the refinancing of the Company s former 8.875% Senior Notes due 2016 (2016 Notes) with the proceeds from the issuance of additional 6.875% Senior Notes due 2020 (2020 Notes), which is expected to provide a benefit to net income in the future due to the lower interest rate of the 2020 Notes. The Company s evaluation considered other factors, including the Company s history of positive earnings, current earnings trends as the Company s satellite subscriber base scales on its recently launched satellite, ViaSat-1, taxable income adjusted for certain items, the Company s large contractual backlog, and forecasted income by jurisdiction. Consideration was also given to the lengthy period over which these net deferred tax assets can be realized, and the Company s history of not having federal tax loss carryforwards expire unused.

Recent authoritative guidance

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (ASC 210): Disclosures about offsetting Assets and Liabilities. The new authoritative guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this authoritative guidance. This authoritative guidance became effective for the Company beginning in the first quarter of fiscal year 2014 and has been applied retrospectively for all comparative periods presented. Adoption of this authoritative guidance did not have a material impact on the Company s consolidated financial statements and disclosures.

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (ASC 350): Testing Indefinite-Lived Intangible Assets for Impairment. The new authoritative guidance simplifies the requirements for testing for indefinite-lived intangible assets other than goodwill and permits an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative fair value test. The guidance is effective for the Company for annual and, if any, interim impairment tests during the current fiscal year. The adoption of this standard will not have a material impact on the Company or its consolidated financial statements and disclosures.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (ASC 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The guidance, which became effective for the Company beginning in the first quarter of fiscal year 2014, required changes in presentation only and the adoption of this standard did not have a significant impact on the Company s consolidated financial statements and disclosures. The Company considers information related to rollforward amounts and amounts reclassified out of accumulated other comprehensive income to be insignificant and therefore immaterial for separate disclosures.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (ASC 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies that the cumulative translation adjustment should be released into net income only when a reporting entity ceases to have a controlling financial interest in a subsidiary or a business within a foreign entity. Further, for an equity method investment that is a foreign entity, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. These amendments are to be applied prospectively to derecognition events occurring after the effective date. This guidance is effective for the Company beginning in the first quarter of fiscal year 2015 and the adoption of this standard is not expected to have a material impact on its consolidated financial statements and disclosures.

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Note 2 Composition of Certain Balance Sheet Captions

	As of June 28, 2013	As of March 29, 2013
	(In thousands)	
Accounts receivable, net:		
Billed	$ 131,309	$ 134,206
Unbilled	131,039	134,198
Allowance for doubtful accounts	(1,647)	(1,434)
	$ 260,701	$ 266,970
Inventories:		
Raw materials	$ 46,941	$ 40,308
Work in process	20,836	21,298
Finished goods	57,915	44,675
	$ 125,692	$ 106,281
Prepaid expenses and other current assets:		
Prepaid expenses	$ 35,573	$ 34,257
Other	3,656	6,562
	$ 39,229	$ 40,819
Satellites, net:		
Satellite WildBlue-1 (estimated useful life of 10 years)	$ 195,890	$ 195,890
Capital lease of satellite capacity Anik F2 (estimated useful life of 10 years)	99,090	99,090
Satellite ViaSat-1 (estimated useful life of 17 years)	363,204	363,204
Satellite ViaSat-2 (under construction)	36,632	
	694,816	658,184
Less accumulated depreciation and amortization	(135,572)	(123,094)
	$ 559,244	$ 535,090
Property and equipment, net:		
Machinery and equipment (estimated useful life of 2-5 years)	$ 237,192	$ 226,884
Computer equipment and software (estimated useful life of 2-7 years)	159,054	154,202
CPE leased equipment (estimated useful life of 3-5 years)	190,022	170,934
Furniture and fixtures (estimated useful life of 7 years)	17,722	15,716
Leasehold improvements (estimated useful life of 2-17 years)	59,325	57,691
Building (estimated useful life of 24 years)	8,923	8,923
Land held for sale	2,846	2,846
Land	1,260	1,260

Construction in progress	27,274	23,025
	703,618	661,481
Less accumulated depreciation and amortization	(304,405)	(282,790)
	$ 399,213	$ 378,691
Other acquired intangible assets, net:		
Technology (weighted average useful life of 6 years)	$ 56,209	$ 53,714
Contracts and customer relationships (weighted average useful life of 7 years)	88,670	88,651
Satellite co-location rights (weighted average useful life of 9 years)	8,600	8,600
Trade name (weighted average useful life of 3 years)	5,680	5,680
Other (weighted average useful life of 9 years)	6,292	6,287
	165,451	162,932
Less accumulated amortization	(119,328)	(115,762)
	$ 46,123	$ 47,170

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Other assets:		
Capitalized software costs, net	$ 64,627	$ 60,596
Patents, orbital slots and other licenses, net	16,000	11,100
Deferred income taxes	103,578	97,238
Other	35,535	36,314
	$ 219,740	$ 205,248
Accrued liabilities:		
Collections in excess of revenues and deferred revenues	$ 74,917	$ 65,822
Accrued employee compensation	6,643	23,925
Accrued vacation	20,318	19,252
Warranty reserve, current portion	9,176	8,840
Other	34,316	44,070
	$ 145,370	$ 161,909
Other liabilities:		
Deferred revenue, long-term portion	$ 14,802	$ 15,360
Deferred rent, long-term portion	9,428	8,964
Warranty reserve, long-term portion	5,553	5,267
Deferred income taxes, long-term portion	1,414	1,547
Unrecognized tax position liabilities	493	493
Satellite performance incentives obligation, long-term portion	20,858	21,009
	$ 52,548	$ 52,640

Note 3 Fair Value Measurements

In accordance with the authoritative guidance for financial assets and liabilities measured at fair value on a recurring basis (ASC 820), the Company prioritizes the inputs used to measure fair value from market-based assumptions to entity specific assumptions:

Level 1 Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs which reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instruments valuation.

The following tables present the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 28, 2013 and March 29, 2013:

	Fair Value as of June 28, 2013	Level 1	Level 2	Level 3
		(In thousands)		
Assets:				
Cash equivalents	$ 13,162	$ 13,162	$	$
Total assets measured at fair value on a recurring basis	$ 13,162	$ 13,162	$	$
Liabilities:				
Foreign currency forward contracts	$ 192	$	$ 192	$
Total liabilities measured at fair value on a recurring basis	$ 192	$	$ 192	$

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	Fair Value as of March 29, 2013	Level 1	Level 2	Level 3
		(In thousands)		
Assets:				
Cash equivalents	$ 47,427	$ 47,427	$	$
Total assets measured at fair value on a recurring basis	$ 47,427	$ 47,427	$	$
Liabilities:				
Foreign currency forward contracts	$ 318	$	$ 318	$
Total liabilities measured at fair value on a recurring basis	$ 318	$	$ 318	$

The following section describes the valuation methodologies the Company uses to measure financial instruments at fair value:

Cash equivalents The Company s cash equivalents consist of money market funds. Money market funds are valued using quoted prices for identical assets in an active market with sufficient volume and frequency of transactions (Level 1).

Foreign currency forward contracts The Company uses derivative financial instruments to manage foreign currency risk relating to foreign exchange rates. The Company does not use these instruments for speculative or trading purposes. The Company s objective is to reduce the risk to earnings and cash flows associated with changes in foreign currency exchange rates. Derivative instruments are recognized as either assets or liabilities in the accompanying condensed consolidated financial statements and are measured at fair value. Gains and losses resulting from changes in the fair values of those derivative instruments are recorded to earnings or other comprehensive income (loss) depending on the use of the derivative instrument and whether it qualifies for hedge accounting. The Company s foreign currency forward contracts are valued using standard calculations/models that are primarily based on observable inputs, such as foreign currency exchange rates, or can be corroborated by observable market data (Level 2).

Long-term debt The Company s long-term debt consists of $575.0 million in aggregate principal amount of 2020 Notes reported at amortized cost. However, for disclosure purposes, the Company is required to measure the fair value of outstanding debt on a recurring basis. As of June 28, 2013 and March 29, 2013, the fair value of the Company s 2020 Notes was determined using quoted prices in active markets for identical liabilities (Level 1) and was approximately $606.6 million and $616.7 million, respectively.

Satellite performance incentives obligation The Company s contract with the manufacturer of ViaSat-1 requires the Company to make monthly in-orbit satellite performance incentive payments, including interest at 7.0%, over a fifteen-year period from December 2011 to December 2026, subject to the continued satisfactory performance of the satellite. The Company recorded the net present value of these expected future payments as a liability and as a component of the cost of the satellite. However, for disclosure purposes, the Company is required to measure the fair value of outstanding satellite performance incentives on a recurring basis. The fair value of the Company s outstanding satellite performance incentives is estimated to approximate their carrying value based on current rates (Level 2). As of June 28, 2013 and March 29, 2013, the Company s estimated satellite performance incentives obligation and accrued interest was $22.8 million and $22.7 million, respectively.

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Note 4 Shares Used In Computing Diluted Net Income (Loss) Per Share

The weighted average number of shares used to calculate basic and diluted net income (loss) per share attributable to ViaSat, Inc. common stockholders is the same for both the three months ended June 28, 2013 and June 29, 2012, as the Company incurred a net loss attributable to ViaSat, Inc. common stockholders in both periods and inclusion of common share equivalents would be antidilutive. Common share equivalents excluded from the calculation for the three months ended June 28, 2013 were 880,132 shares relating to stock options, 576,238 shares relating to restricted stock units and 139,793 shares relating to certain terms of the amended ViaSat 401(k) Profit Sharing Plan and Employee Stock Purchase Plan. Common share equivalents excluded from the calculation for the three months ended June 29, 2012 were 1,709,087 shares relating to stock options, 366,753 shares relating to restricted stock units and 198,809 shares relating to certain terms of the amended ViaSat 401(k) Profit Sharing Plan and Employee Stock Purchase Plan.

Note 5 Goodwill and Acquired Intangible Assets

During the first quarter of fiscal year 2014, the Company s goodwill decreased by approximately $0.4 million related to the effects of foreign currency translation recorded within the Company s government systems and commercial networks segments. Other acquired intangible assets are amortized using the straight-line method over their estimated useful lives of three to nine years. Amortization expense related to other acquired intangible assets was $3.5 million and $4.1 million for the three months ended June 28, 2013 and June 29, 2012, respectively.

The expected amortization expense of amortizable acquired intangible assets may change due to the effects of foreign currency fluctuations as a result of international businesses acquired. Current and expected amortization expense for acquired intangible assets for each of the following periods is as follows:

	Amortization (In thousands)
For the three months ended June 28, 2013	$ 3,501
Expected for the remainder of fiscal year 2014	$ 11,043
Expected for fiscal year 2015	14,490
Expected for fiscal year 2016	10,967
Expected for fiscal year 2017	4,643
Expected for fiscal year 2018	3,599
Thereafter	1,381
	$ 46,123

Note 6 Senior Notes and Other Long-Term Debt

Total long-term debt consisted of the following as of June 28, 2013 and March 29, 2013:

	As of June 28, 2013	As of March 29, 2013
	(In thousands)	
Senior Notes		
2020 Notes	$ 575,000	$ 575,000

Unamortized premium on the 2020 Notes	9,717	9,993
Total senior notes, net of premium	584,717	584,993
Less: current portion of the senior notes		
Total senior notes long-term, net	584,717	584,993
Other Long-Term Debt		
Revolving credit facility		
Other	3,366	3,686
Total other long-term debt	3,366	3,686
Less: current portion of other long-term debt	1,910	2,230
Other long-term debt, net	1,456	1,456
Total debt	588,083	588,679
Less: current portion	1,910	2,230
Long-term debt, net	$ 586,173	$ 586,449

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Credit Facility

As of June 28, 2013, the Company s revolving credit facility (the Credit Facility), as amended, provided a revolving line of credit of $325.0 million (including up to $50.0 million of letters of credit), with a maturity date of May 9, 2017. Borrowings under the Credit Facility bear interest, at the Company s option, at either (1) the highest of the Federal Funds rate plus 0.50%, the Eurodollar rate plus 1.00%, or the administrative agent s prime rate as announced from time to time, or (2) the Eurodollar rate, plus, in the case of each of (1) and (2), an applicable margin that is based on the Company s total leverage ratio. The Company has capitalized certain amounts of interest expense on the Credit Facility in connection with the construction of various assets during the construction period. The Credit Facility is guaranteed by certain of the Company s domestic subsidiaries and secured by substantially all of the Company s and such subsidiaries assets.

The Credit Facility contains financial covenants regarding a maximum total leverage ratio and a minimum interest coverage ratio. In addition, the Credit Facility contains covenants that restrict, among other things, the Company s ability to sell assets, make investments and acquisitions, make capital expenditures, grant liens, pay dividends and make certain other restricted payments.

The Company was in compliance with its financial covenants under the Credit Facility as of June 28, 2013. At June 28, 2013, the Company had no outstanding borrowings under the Credit Facility and $38.5 million outstanding under standby letters of credit, leaving borrowing availability under the Credit Facility as of June 28, 2013 of $286.5 million.

Senior Notes due 2020

In February 2012, the Company issued $275.0 million in principal amount of 2020 Notes in a private placement to institutional buyers, which were exchanged in August 2012 for substantially identical 2020 Notes that had been registered with the SEC. These initial 2020 Notes were issued at face value and are recorded as long-term debt in the Company s condensed consolidated financial statements. On October 12, 2012, the Company issued an additional $300.0 million in principal amount of 2020 Notes in a private placement to institutional buyers at an issue price of 103.50% of the principal amount, which were exchanged in January 2013 for substantially identical 2020 Notes that had been registered with the SEC. The 2020 Notes are all treated as a single class. The 2020 Notes bear interest at the rate of 6.875% per year, payable semi-annually in cash in arrears, which interest payments commenced in June 2012. Deferred financing cost associated with the issuance of the 2020 Notes is amortized to interest expense on a straight-line basis over the term of the 2020 Notes, the results of which are not materially different from the effective interest rate basis. The $10.5 million premium the Company received in connection with the issuance of the additional 2020 Notes is recorded as long-term debt in the Company s condensed consolidated financial statements and is being amortized as a reduction to interest expense on an effective interest rate basis over the term of those 2020 Notes.

The 2020 Notes are guaranteed on an unsecured senior basis by each of the Company s existing and future subsidiaries that guarantees the Credit Facility (the Guarantor Subsidiaries). The 2020 Notes and the guarantees are the Company s and the Guarantor Subsidiaries general senior unsecured obligations and rank equally in right of payment with all of the Company s existing and future unsecured unsubordinated debt. The 2020 Notes and the guarantees are effectively junior in right of payment to their existing and future secured debt, including under the Credit Facility (to the extent of the value of the assets securing such debt), are structurally subordinated to all existing and future liabilities (including trade payables) of the Company s subsidiaries that are not guarantors of the 2020 Notes, and are senior in right of payment to all of their existing and future subordinated indebtedness.

The indenture governing the 2020 Notes limits, among other things, the Company s and its restricted subsidiaries ability to: incur, assume or guarantee additional debt; issue redeemable stock and preferred stock; pay dividends, make distributions or redeem or repurchase capital stock; prepay, redeem or repurchase subordinated debt; make loans and investments; grant or incur liens; restrict dividends, loans or asset transfers from restricted subsidiaries; sell or otherwise dispose of assets; enter into transactions with affiliates; reduce the Company s satellite insurance; and consolidate or merge with, or sell substantially all of their assets to, another person.

Prior to June 15, 2015, the Company may redeem up to 35% of the 2020 Notes at a redemption price of 106.875% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the redemption date, from the net cash proceeds of specified equity offerings. The

Company may also redeem the 2020 Notes prior to June 15, 2016, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest, if any, thereon to the redemption date. The applicable premium is calculated as the greater of: (i) 1.0% of the principal amount of such 2020 Notes and (ii) the excess, if any, of (a) the present value at such date of redemption of (1) the redemption price of such 2020 Notes on June 15, 2016 plus (2) all required interest payments due on such 2020 Notes through June 15, 2016 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the treasury rate (as defined under the indenture) plus 50 basis points, over (b) the then-outstanding principal amount of such 2020 Notes. The 2020 Notes may be redeemed, in whole or in part, at any time during the twelve months beginning on June 15, 2016 at a redemption price of 103.438%, during the twelve months beginning on June 15, 2017 at a redemption price of 101.719%, and at any time on or after June 15, 2018 at a redemption price of 100%, in each case plus accrued and unpaid interest, if any, thereon to the redemption date.

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In the event a change of control occurs (as defined in the indenture), each holder will have the right to require the Company to repurchase all or any part of such holder s 2020 Notes at a purchase price in cash equal to 101% of the aggregate principal amount of the 2020 Notes repurchased plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Note 7 Product Warranty

The Company provides limited warranties on its products for periods of up to five years. The Company records a liability for its warranty obligations when products are shipped or they are included in long-term construction contracts 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 type of failures that may occur. It is possible that the Company s 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 during the three months ended June 28, 2013 and June 29, 2012:

	Three Months Ended	
	June 28, 2013	June 29, 2012
	(In thousands)	
Balance, beginning of period	$ 14,107	$ 11,651
Change in liability for warranties issued in period	2,130	2,480
Settlements made (in cash or in kind) during the period	(1,508)	(1,246)
Balance, end of period	$ 14,729	$ 12,885

Note 8 Commitments and Contingencies

In May 2013, the Company entered into an agreement with The Boeing Company (Boeing) to purchase ViaSat-2, the Company s second high-capacity Ka-band satellite, at a price of approximately $358.0 million, plus an additional amount for launch support services to be performed by Boeing.

In February 2012, the Company filed a complaint against Space Systems/Loral, Inc. (SS/L) and its former parent company Loral Space & Communications, Inc. (Loral) in the United States District Court for the Southern District of California for patent infringement and breach of contract relating to the manufacture of ViaSat-1. The Company alleges, among other things, that SS/L and Loral infringed U.S. Patent Nos. 8,107,875, 8,010,043, 8,068,827 and 7,773,942 by making, using, offering to sell and/or selling other high-capacity broadband satellites, and has requested monetary damages, injunctive relief and other remedies. In June 2012, SS/L filed counterclaims against the Company for patent infringement and declaratory relief. Specifically, SS/L seeks a judicial declaration that SS/L did not breach the parties contract for the manufacture of ViaSat-1, that SS/L does not infringe the Company s patents described above, and that those patents are invalid and/or unenforceable. SS/L also alleges that the Company infringed U.S. Patent Nos. 6,879,808, 6,400,696 and 7,219,132 by providing broadband internet service by means of the Anik F2 satellite using ViaSat satellite gateways and satellite user terminals and has induced others to infringe by selling certain ground equipment and user terminals.

The Company is involved in a variety of claims, suits, investigations and proceedings arising in the ordinary course of business, including actions with respect to intellectual property claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, the Company believes that the resolution of its current pending matters will not have a material adverse effect on its business, financial condition, results of operations or liquidity.

The Company has contracts with various U.S. government agencies. Accordingly, the Company is routinely subject to audit and review by the DCMA, the DCAA and other U.S. government agencies of its performance on government contracts, indirect rates and pricing practices, accounting and management internal control business systems, and compliance with applicable contracting and procurement laws, regulations and standards. An adverse outcome to a review or audit or other failure to comply with applicable contracting and procurement laws, regulations and standards could result in material civil and criminal penalties and administrative sanctions being imposed on the Company, which may include termination of contracts, forfeiture of profits, triggering of price reduction clauses, suspension of payments, significant customer refunds, fines and suspension, or a prohibition on doing business with U.S. government agencies. In addition, if the Company fails to obtain an adequate determination of its various accounting and management internal control business systems from applicable U.S. government agencies or if allegations of impropriety are made against it, the Company could suffer serious harm to its business or its reputation, including its ability to bid on new contracts or receive contract renewals and its competitive position in the bidding process. The Company s incurred cost audits by the DCAA have not been completed for fiscal year 2004 and subsequent fiscal years. Although the Company has recorded contract revenues

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subsequent to fiscal year 2003 based upon an estimate of costs that the Company believes will be approved upon final audit or review, the Company does not know the outcome of any ongoing or future audits or reviews and adjustments, and if future adjustments exceed the Company s estimates, its profitability would be adversely affected. As of June 28, 2013 and March 29, 2013, the Company had $7.2 million in contract-related reserves for its estimate of potential refunds to customers for potential cost adjustments on several multi-year U.S. government cost reimbursable contracts. This reserve is classified as either an element of accrued liabilities or as a reduction of unbilled accounts receivable based on status of the related contracts.

Note 9 Income Taxes

The Company currently estimates its annual effective income tax benefit rate to be approximately 75.0% for fiscal year 2014. The estimated annual effective tax rate is different from the expected statutory rate primarily due to federal and state research and development tax credits. The American Taxpayer Relief Act of 2012 was enacted on January 2, 2013. This legislation retroactively reinstated and extended the credit through December 31, 2013. If the federal research and development tax credit is extended through the end of fiscal year 2014, the Company may have a higher annual effective tax benefit rate for fiscal year 2014, and the amount of any such tax rate reduction will depend on the effective date of any such extension, the terms of the extension, as well as the amount of eligible research and development expenses in the extended period.

Future realization of the existing deferred tax asset ultimately depends on future profitability and the existence of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carryforward period available under tax law. In the event that the Company s estimate of taxable income is less than that required to utilize the full amount of any deferred tax asset, a valuation allowance is established. The Company s analysis of the need for a valuation allowance considered the losses incurred during the three months ended June 28, 2013 and the fiscal year ended March 29, 2013. The loss in fiscal year 2013 was more significant and a substantial portion of such loss resulted from an extinguishment of debt charge that was recorded upon the refinancing of the Company s former 2016 Notes with the proceeds from the issuance of additional 2020 Notes, which is expected to provide a benefit to net income in the future due to the lower interest rate of the 2020 Notes. The Company s evaluation considered other factors, including the Company s history of positive earnings, current earnings trends as its satellite subscriber base scales on its recently launched satellite, taxable income adjusted for certain items, the Company s large contractual backlog, and forecasted income by jurisdiction. Consideration was also given to the lengthy period over which these net deferred tax assets can be realized, and the Company s history of not having federal tax loss carryforwards expire unused. For the three months ended June 28, 2013, the Company s gross unrecognized tax benefits increased by $1.0 million. In the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will decrease by up to approximately $1.0 million as a result of the expiration of the statute of limitations or settlements with tax authorities for previously filed tax returns.

Note 10 Segment Information

The Company s reporting segments, comprised of the satellite services, commercial networks and government systems segments, are primarily distinguished by the type of customer and the related contractual requirements. The Company s satellite services segment provides retail and wholesale satellite-based broadband services for its consumer, enterprise and mobile broadband customers primarily in the United States, as well as managed network services for the satellite communication systems of the Company s consumer, enterprise and mobile broadband customers worldwide. The Company s commercial networks segment develops and produces a variety of advanced end-to-end satellite and other wireless communication systems and ground networking equipment and products, some of which are ultimately used by the Company s satellite services segment. The Company s government systems segment develops and produces network-centric, internet protocol (IP)-based secure fixed and mobile government communications systems, products, services and solutions. The more regulated government environment is subject to unique contractual requirements and possesses economic characteristics which differ from the satellite services and commercial networks segments. The Company s segments are determined consistent with the way management currently organizes and evaluates financial information internally for making operating decisions and assessing performance.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Segment revenues and operating profits (losses) for the three months ended June 28, 2013 and June 29, 2012 were as follows:

	Three Months Ended	
	June 28, 2013	June 29, 2012
	(In thousands)	
Revenues:		
Satellite Services		
Product	$ 16	$ 531
Service	85,831	58,788
Total	85,847	59,319
Commercial Networks		
Product	91,824	70,762
Service	5,575	5,373
Total	97,399	76,135
Government Systems		
Product	90,321	76,436
Service	47,535	29,873
Total	137,856	106,309
Elimination of intersegment revenues		
Total revenues	$ 321,102	$ 241,763
Operating profits (losses):		
Satellite Services	$ (12,978)	$ (22,516)
Commercial Networks	3,336	(2,069)
Government Systems	16,567	14,860
Elimination of intersegment operating profits		