VIASAT INC
Form 10-Q
February 11, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended January 2, 2009.

OR

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

For the transition period from __________ to __________

Commission File Number (0-21767)
ViaSat, Inc.
(Exact name of registrant as specified in its charter)

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

6155 El Camino Real
Carlsbad, California 92009
(760) 476-2200
(Address 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 þ No o

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the registrant s common stock, $0.0001 par value, as of February 6, 2009 was 30,992,102.

VIASAT, INC.
TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

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

	As of January 2, 2009	As of March 28, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 63,711	$ 125,176
Short-term investments		43
Accounts receivable, net	166,149	155,484
Inventories	62,391	60,326
Deferred income taxes	18,664	18,664
Prepaid expenses and other current assets	21,383	15,933
Total current assets	332,298	375,626
Property, equipment and satellite, net	145,644	64,693
Other acquired intangible assets, net	18,460	25,477
Goodwill	66,407	66,407
Other assets	21,986	18,891
Total assets	$ 584,795	$ 551,094
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 53,357	$ 52,317
Accrued liabilities	66,679	73,957
Payables to former stockholders of acquired business		1,101
Total current liabilities	120,036	127,375
Other liabilities	18,693	17,290
Total liabilities	138,729	144,665
Commitments and contingencies (Note 9)		
Minority interest in consolidated subsidiary	3,823	2,289
Stockholders equity:		
Common stock	3	3
Paid-in capital	269,154	255,856
Retained earnings	175,355	149,140
Common stock held in treasury	(1,694)	(1,034)
Accumulated other comprehensive (loss) income	(575)	175
Total stockholders equity	442,243	404,140

Total liabilities and stockholders equity	$ 584,795	$ 551,094

See accompanying notes to condensed consolidated financial statements.

Table of Contents

VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share data)

	Three months ended		Nine months ended	
	January 2, 2009	December 28, 2007	January 2, 2009	December 28, 2007
Revenues	$ 150,362	$ 152,053	$ 462,603	$ 427,240
Operating expenses:				
Cost of revenues	105,529	105,842	329,100	306,751
Selling, general and administrative	23,952	20,920	72,986	59,074
Independent research and development	6,985	8,405	23,481	24,215
Amortization of acquired intangible assets	2,337	2,389	7,017	7,173
Income from operations	11,559	14,497	30,019	30,027
Other income (expense):				
Interest income	97	1,578	1,390	4,462
Interest expense	(116)	(269)	(316)	(606)
Income before income taxes and minority interest	11,540	15,806	31,093	33,883
Provision for income taxes	914	4,803	4,822	9,863
Minority interest in net (loss) earnings of subsidiary, net of tax	(40)	778	56	1,029
Net income	$ 10,666	$ 10,225	$ 26,215	$ 22,991
Basic net income per share	$ .35	$ .34	$ .85	$ .76
Diluted net income per share	$ .34	$ .32	$ .82	$ .71
Shares used in computing basic net income per share	30,836	30,338	30,699	30,164
Shares used in computing diluted net income per share	31,699	32,458	31,826	32,309

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Nine months ended	
	January 2, 2009	December 28, 2007
Cash flows from operating activities:		
Net income	$ 26,215	$ 22,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,744	11,660
Amortization of intangible assets	8,143	9,053
Stock compensation expense	7,581	5,550
Other non-cash adjustments	(2,030)	2,873
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of the effect of acquisitions:		
Accounts receivable	(10,945)	(7,417)
Inventories	(2,178)	(9,772)
Other assets	(4,886)	(9,888)
Accounts payable	(3,069)	7,491
Accrued liabilities	(2,526)	12,085
Other liabilities	1,403	1,461
Net cash provided by operating activities	31,452	46,087
Cash flows from investing activities:		
Purchase of property, equipment and satellite	(90,712)	(13,584)
Payment related to acquisitions of businesses, net of cash acquired	(925)	(9,826)
Purchase of short-term investments held-to-maturity		(11,835)
Cash paid for patents and other assets	(2,225)	
Net cash used in investing activities	(93,862)	(35,245)
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,333	6,763
Purchase of common stock in treasury	(660)	(1,034)
Payment on secured borrowing	(4,720)	
Proceeds from sale of stock of majority-owned subsidiary	1,500	
Incremental tax benefits from stock-based compensation	191	934
Net cash provided by financing activities	1,644	6,663
Effect of exchange rate changes on cash	(699)	223
Net (decrease) increase in cash and cash equivalents	(61,465)	17,728
Cash and cash equivalents at beginning of period	125,176	103,345
Cash and cash equivalents at end of period	$ 63,711	$ 121,073
Non-cash investing and financing activities:		

Issuance of stock in satisfaction of a payable to former stockholders of an acquired business	$		$	5,631
Issuance of payable in connection with acquisition	$		$	800
Issuance of common stock in connection with acquisition	$		$	452

See accompanying notes to condensed consolidated financial statements.

Table of Contents

VIASAT, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(UNAUDITED)
(In thousands, except share data)

	Common Stock Number of Shares Issued	Common Stock Amount	Paid-in Capital	Retained Earnings	Common Stock in Treasury Number of Shares	Common Stock in Treasury Amount	Accumulated Other Comprehensive Income	Total	Comprehensive Income
Balance at March 28, 2008	30,500,605	$ 3	$ 255,856	$ 149,140	(33,238)	$ (1,034)	$ 175	$ 404,140	
Exercise of stock options	237,883		2,210					2,210	
Tax benefit from exercise of stock options and release of restricted stock unit (RSU) awards			384					384	
Issuance of stock under Employee Stock Purchase Plan	182,024		3,123					3,123	
Stock-based compensation expense			7,581					7,581	
RSU awards vesting	93,006								
Purchase of treasury shares pursuant to vesting of certain RSU agreements					(33,350)	(660)		(660)	
Net income				26,215				26,215	$ 26,215
Foreign currency translation, net of tax							(750)	(750)	(750)
Comprehensive income									$ 25,465
Balance at January 2, 2009	31,013,518	$ 3	$ 269,154	$ 175,355	(66,588)	$ (1,694)	$ (575)	$ 442,243	

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

Note 1 Basis of Presentation

The accompanying condensed consolidated balance sheet at January 2, 2009, the condensed consolidated statements of operations for the three and nine months ended January 2, 2009 and December 28, 2007, the condensed consolidated statements of cash flows for the nine months ended January 2, 2009 and December 28, 2007 and the condensed consolidated statement of stockholders equity for the nine months ended January 2, 2009 have been prepared by the management of ViaSat, Inc. (the Company), and have not been audited. These financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended March 28, 2008 and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for all periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended March 28, 2008 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 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.

The Company s consolidated financial statements include the assets, liabilities and results of operations of TrellisWare Technologies, Inc. (TrellisWare), a majority-owned subsidiary of the Company. 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 2009 refer to the fiscal year ending on April 3, 2009. The Company s quarters for fiscal year 2009 end on June 27, 2008, October 3, 2008, January 2, 2009 and April 3, 2009. This results in a 53 week fiscal year approximately every four to five years. Fiscal year 2009 is a 53 week year, compared with a 52 week year in fiscal year 2008. As a result of the shift in the fiscal calendar, the second quarter of fiscal year 2009 included an additional week. The Company does not believe that the extra week results in any material impact on its financial results.

During the Company s second quarter of fiscal year 2008, the Company completed the acquisition of JAST, S.A. (JAST), a company based in Switzerland. The acquisition was accounted for as a purchase and accordingly, the operating results of JAST have been included from the date of acquisition in the Company s condensed consolidated financial statements.

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, self-insurance reserves, allowance for doubtful accounts, warranty accrual, valuation of goodwill and other intangible assets, valuation of derivatives, long-lived assets and valuation allowance on deferred tax assets.

Property, Equipment and Satellite

Equipment, computers and software, furniture and fixtures and the Company s satellite under construction are recorded at cost, net of accumulated depreciation. The Company generally computes depreciation using the straight-line method over the estimated useful lives of the assets ranging from two to eleven 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. Additions to property, equipment and satellite, 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.

Satellite construction costs, including launch services and insurance, are generally procured under long-term contracts that provide for payments over the contract periods and are capitalized as incurred.

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

Payables to Former Shareholders of Acquired Businesses

In August 2007, in connection with the terms of the Company s JAST acquisition, the Company recorded an obligation to pay the remaining portion of the initial purchase price of approximately $0.8 million on the first anniversary of the closing date. Accordingly, in August 2008, the Company paid approximately $0.8 million in cash to the former stockholders of JAST.

Self-Insurance Liabilities

The Company has 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-insurance policies 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 policy year. Based on these actuarial methods along with currently available information and insurance industry statistics, the Company recorded self-insurance liabilities as of January 2, 2009 and March 28, 2008 of $1.3 million and $1.1 million, 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 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 January 2, 2009, the Company had no secured borrowing arrangements. As of March 28, 2008, 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 the borrowing arrangement. In the first quarter of fiscal year 2009, the Company paid all obligations related to its secured borrowing totaling $4.7 million plus accrued interest.

During fiscal year 2008, due to the customer s payment default under the note receivable, the Company wrote down the note receivable by approximately $5.3 million related to the principal and interest accrued to date. Pursuant to a notes receivable insurance arrangement which provides for the recovery of certain principal and interest amounts on the note, the Company has recorded a current asset of approximately $4.5 million as of March 28, 2008 and January 2, 2009.

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 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 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 January 2, 2009 and March 28, 2008, no such amounts were accrued.

Minority Interest

Minority interest represents the proportionate share of the equity of the Company s consolidated majority-owned subsidiary owned by minority shareholders in that subsidiary. This proportionate share of the equity changes when additional shares of common or preferred stock are issued or purchased back by the majority-owned subsidiary. Such changes result in a decrease or increase of the Company s ownership proportion, which results in the Company recording losses or gains on investment. Minority interest is adjusted for earnings (losses) net of tax attributable to the minority interest shareholders of the consolidated subsidiary. All earnings (losses), net of tax, are allocated to the shareholders of the consolidated subsidiary in proportion to their share of the equity ownership of the consolidated subsidiary. Earnings (losses), net of tax, allocated to such minority interest shareholders are recorded as minority interest in net earnings (losses) of subsidiary, net of tax, in the accompanying consolidated statements of operations.

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

In April 2008, the Company s majority-owned subsidiary, TrellisWare, issued additional shares of preferred stock in which the Company invested $1.8 million in order to retain a constant ownership interest. As a result of the transaction, TrellisWare also received $1.5 million in cash proceeds from the issuance of preferred stock to its other principal stockholders.

Common Stock Held in Treasury

During the third quarters of fiscal year 2009 and fiscal year 2008, the Company delivered 93,006 and 94,165 shares, respectively, of common stock 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 delivery of common stock underlying these restricted stock unit agreements, the Company repurchased 33,350 and 33,238 shares of common stock with a total value of $0.7 million and $1.0 million during the third quarters of fiscal year 2009 and fiscal year 2008, respectively. Repurchased shares of common stock of 66,588 and 33,238 were held in treasury as of January 2, 2009 and March 28, 2008, respectively.

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 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 January 2, 2009, the Company did not settle any foreign exchange contracts. During the three months ended December 28, 2007, the Company settled certain foreign exchange contracts and in connection therewith recognized a gain of approximately $0.2 million. During the nine months ended January 2, 2009 and December 28, 2007, the Company settled certain foreign exchange contracts and in connection therewith recognized a loss of approximately $0.3 million and a gain of approximately $0.2 million, respectively, recorded in cost of revenues based on the nature of the underlying transactions. The Company had no foreign currency forward contracts outstanding as of January 2, 2009 or March 28, 2008.

Stock-Based Payments

The Company records compensation expense associated with stock options, restricted stock unit awards and other equity based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award. The Company recognized $2.5 million and $7.6 million of stock-based compensation expense for the three and nine months ended January 2, 2009, respectively, and $1.9 million and $5.6 million of stock-based compensation expense for the three and nine months ended December 28, 2007, respectively.

The Company recorded incremental tax benefits from stock options exercised and restricted stock unit awards vesting of $0.2 million and $0.9 million for the nine months ended January 2, 2009 and December 28, 2007, respectively, which are classified as part of cash flows from financing activities in the condensed consolidated statements of cash flows. At January 2, 2009, the total unrecognized estimated compensation cost, net of estimated forfeitures, related to unvested stock options and restricted stock units was approximately $7.5 million and $14.6 million, respectively. These costs are expected to be recognized over a weighted average period of 2.3 years and 3.0 years, respectively. At January 2, 2009, there was no unrecognized estimated compensation cost related to the Company s employee stock purchase plan.

Income Taxes

On March 31, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company s policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense.

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

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.

Recent Accounting Pronouncements

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. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurement for Purpose of Lease Classification of Measurement under Statement 13, which amends SFAS 157 to exclude accounting pronouncements that address fair value measurements for purpose of lease classification or measurement under SFAS No. 13, Accounting for Leases. In February 2008, the FASB also issued FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 until the fist fiscal year that begins after November 15, 2008 (fiscal year 2010 for the Company) for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 was effective for financial assets and liabilities beginning in fiscal year 2009. The Company adopted this standard for financial assets and liabilities in the current fiscal year without any material impact to its consolidated financial statements. The Company is currently evaluating the impact that SFAS 157 may have on its consolidated financial statements and disclosures when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of fiscal year 2010.

In October 2008, the FASB issued FSP SFAS 157-3 (FSP 157-3), Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, to clarify how an entity would determine fair value in an inactive market. FSP 157-3 was effective immediately beginning with the Company s financial statements for the quarter ended October 3, 2008. The application of the provisions of FSP 157-3 did not materially impact the Company s consolidated financial statement disclosures.

In February 2007, the FASB issued Statement No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, 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. As the Company did not elect to measure any of its financial instruments at fair value under the provisions of SFAS 159, the adoption of this statement effective March 29, 2008 did not have an impact on the Company s consolidated financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-3 (EITF 07-3), Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. This issue provides that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. The Company adopted this standard in the current fiscal year without any material impact to its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). The purpose of issuing the statement is to replace current guidance in SFAS 141 to better represent the economic value of a business combination transaction. The changes to be effected with SFAS 141R from the current guidance include, but are not limited to: (1) acquisition costs will be recognized as expenses separately from the acquisition; (2) known contractual contingencies at the time of the acquisition will be considered part of the liabilities acquired measured at their fair value; all other contingencies will be part of the liabilities acquired measured at their fair value only if it is more likely than not that they meet the definition of a liability; (3) contingent consideration based on the outcome of future events will be recognized and measured at the time of the acquisition; (4) business combinations

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

achieved in stages (step acquisitions) will need to recognize the identifiable assets and liabilities, as well as non-controlling interests, in the acquiree, at the full amounts of their fair values; and (5) a bargain purchase (defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any non-controlling interest in the acquiree) will require that excess to be recognized as a gain attributable to the acquirer. SFAS 141R will be effective for the Company in fiscal year 2010. The standard applies prospectively to business combinations for which the acquisition date is on or after April 4, 2009, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after April 4, 2009, regardless of the date of the original business combination. The Company is currently evaluating the impact that SFAS 141R may have on its consolidated financial statements and disclosures.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 changes the accounting and reporting for business acquisitions and non-controlling interests in subsidiaries. The standard was issued to improve the relevance, comparability, and transparency of financial information provided to investors. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. SFAS 160 will be effective for the Company in fiscal year 2010. The Company is currently evaluating the impact that SFAS 160 may have on its consolidated financial statements and disclosures.

In March 2008, the FASB issued SFAS No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on the Company s financial position, financial performance, and cash flows. SFAS 161 is effective for interim periods beginning subsequent to November 15, 2008, commencing for the Company with respect to its fourth quarter of fiscal year 2009. The Company is currently assessing the potential impact that adoption of SFAS 161 may have on its consolidated financial statements and disclosures.

Note 2 Revenue Recognition

A substantial portion of the Company s revenues are 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 percentage-of-completion method of accounting under the American Institute of Certified Public Accountants Statement of Position 81-1 (SOP 81-1), Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Sales and earnings under these contracts are recorded either based on the ratio of actual costs incurred to 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 January 2, 2009 and December 28, 2007, the Company recorded losses of approximately \$0.2 million and \$3.0 million, respectively, related to loss contracts. During the nine months ended January 2, 2009 and December 28, 2007, the Company recorded losses of approximately \$1.6 million and \$6.5 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 Staff Accounting Bulletin No. 104 (SAB 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 collectability 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 has been met. The amount of product and service revenue recognized is impacted by the Company s judgments as to whether an arrangement includes multiple elements and, if so, whether sufficient objective and reliable evidence of fair value exists for those elements. Changes to the elements in an arrangement and the Company s ability to establish evidence for those elements could affect the timing of the revenue recognition.

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

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 and are recorded as an accrued liability.

Contract costs on United States government contracts, including indirect costs, are subject to audit and negotiations with United States 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.

Note 3 Fair Value Measurement

Effective March 29, 2008, the Company adopted SFAS 157 for financial assets and liabilities measured at fair value on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. As a basis for categorizing inputs, SFAS 157 establishes the following hierarchy which 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 table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of January 2, 2009:

(In thousands)	Fair value at January 2, 2009	Level 1	Level 2	Level 3
Assets				
Cash equivalents	$ 42,989	$ 48	$ 42,941	$
Total assets measured at fair value on a recurring basis	$ 42,989	$ 48	$ 42,941	$

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, repurchase agreements with a one-day term collateralized by AAA-rated United States government securities and certified deposit investments. Certain money market funds are valued using quoted prices for identical assets in an active market with sufficient volume and frequency of transactions (Level 1). The remaining portion of money market funds, repurchase agreements and certified deposit investments are valued based on quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or brokers model driven valuations in which all significant inputs are observable or can be obtained from or corroborated by observable market data for substantially the full term of the assets (Level 2).

The Company had no foreign currency forward exchange contracts outstanding at January 2, 2009.

Note 4 Earnings Per Share

Potential common stock of 862,680 and 2,119,581 shares for the three months ended January 2, 2009 and December 28, 2007, respectively, and 1,127,500 and 2,145,112 shares for the nine months ended January 2, 2009 and December 28, 2007, respectively, were included in the calculation of diluted earnings per share. Antidilutive shares excluded from the calculation were 3,250,335 and 995,948 shares