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VIASAT INC

Form 10-Q

February 11, 2019

false 2019 Q3 VSAT VIASAT INC 0000797721 --03-31 Large Accelerated Filer false false true true P2Y In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. This guidance replaced most existing revenue recognition guidance and became effective for the Company beginning in fiscal year 2019, including interim periods within that reporting period, based on the FASB decision in July 2015 (ASU 2015-14, Revenue from Contracts with Customers — Deferral of the Effective Date) to delay the effective date of the new revenue recognition standard by one year, but providing entities a choice to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which provides practical expedient for contract modifications and clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to ASC 606, Revenue from Contracts with Customers, which provides for correction or improvement to the guidance previously issued in ASU 2014-09. These standards permit the use of either the retrospective or cumulative effect transition method. The Company adopted this standard effective as of April 1, 2018 utilizing the “modified retrospective method.” For additional information see Note 1 – Revenue recognition. P10Y P2Y P4Y P2Y P2Y In whole or in part, at any time during the 12 months beginning on September 15, 2020 at a redemption price of 102.813% And at any time on or after September 15, 2022 at a redemption price of 100%, in each case plus accrued and unpaid interest, if any, thereon to the redemption date. During the 12 months beginning on September 15, 2021 at a redemption price of 101.406% 2024-01-31 0000797721 2018-04-01 2018-12-31 xbrli:shares 0000797721 2019-01-25 iso4217:USD 0000797721 2018-12-31 0000797721 2018-03-31 0000797721 vsat:PropertyPlantAndEquipmentSatellitesMember 2018-12-31 0000797721 vsat:PropertyPlantAndEquipmentSatellitesMember 2018-03-31 0000797721 vsat:PropertyPlantAndEquipmentExcludingSatellitesMember 2018-12-31 0000797721 vsat:PropertyPlantAndEquipmentExcludingSatellitesMember 2018-03-31 0000797721 us-gaap:ProductMember 2018-10-01 2018-12-31 0000797721 us-gaap:ProductMember 2017-10-01 2017-12-31 0000797721 us-gaap:ProductMember 2018-04-01 2018-12-31 0000797721 us-gaap:ProductMember 2017-04-01 2017-12-31 0000797721 us-gaap:ServiceMember 2018-10-01 2018-12-31 0000797721 us-gaap:ServiceMember 2017-10-01 2017-12-31 0000797721 us-gaap:ServiceMember 2018-04-01 2018-12-31 0000797721 us-gaap:ServiceMember 2017-04-01 2017-12-31 0000797721 2018-10-01 2018-12-31 0000797721 2017-10-01 2017-12-31 0000797721 2017-04-01 2017-12-31 iso4217:USD xbrli:shares 0000797721 vsat:TwoThousandAndTwentyNotesMember 2017-04-01 2017-12-31 0000797721 us-gaap:LineOfCreditMember 2018-04-01 2018-12-31 0000797721 vsat:ExportImportCreditFacilityMember 2018-04-01 2018-12-31 0000797721 vsat:ExportImportCreditFacilityMember 2017-04-01 2017-12-31 0000797721 vsat:TwoThousandAndTwentyFiveNotesMember 2017-04-01 2017-12-31 0000797721 2017-03-31 0000797721 2017-12-31 0000797721 us-gaap:CommonStockMember 2018-03-31 0000797721 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0000797721 us-gaap:RetainedEarningsMember 2018-03-31 0000797721 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0000797721 us-gaap:NoncontrollingInterestMember 2018-03-31 0000797721 us-gaap:CommonStockMember 2018-04-01 2018-12-31 0000797721 us-gaap:AdditionalPaidInCapitalMember 2018-04-01 2018-12-31 0000797721 us-gaap:RetainedEarningsMember us-gaap:AccountingStandardsUpdate201409Member 2018-12-31 0000797721 us-gaap:AccountingStandardsUpdate201409Member 2018-12-31 0000797721 us-gaap:NoncontrollingInterestMember 2018-04-01 2018-12-31 0000797721 us-gaap:RetainedEarningsMember 2018-04-01 2018-12-31 0000797721 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-04-01 2018-12-31 0000797721 us-gaap:CommonStockMember 2018-12-31 0000797721

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2018-12-31 0000797721 us-gaap:CorporateNonSegmentMember 2018-03-31

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2018.

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 (I.R.S. Employer

incorporation or organization) Identification No.)
6155 El Camino Real

Carlsbad, California 92009

(760) 476-2200

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(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant’s common stock, \$0.0001 par value, as of January 25, 2019 was 60,481,263.

VIASAT, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	As of	As of
	December 31,	March 31,
	2018	2018
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$43,365	\$71,446
Accounts receivable, net	295,325	267,665
Inventories	230,122	196,307
Prepaid expenses and other current assets	115,844	77,135
Total current assets	684,656	612,553
Satellites, net	1,188,600	1,239,987
Property and equipment, net	865,343	722,488
Other acquired intangible assets, net	24,760	31,862
Goodwill	121,506	121,085
Other assets	744,851	686,134
Total assets	\$3,629,716	\$3,414,109
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$160,850	\$157,481
Accrued liabilities	292,260	263,676
Current portion of long-term debt	21,755	45,300
Total current liabilities	474,865	466,457
Senior notes	691,803	690,886
Other long-term debt	445,032	287,519
Other liabilities	131,970	121,240
Total liabilities	1,743,670	1,566,102
Commitments and contingencies (Note 8)		
Equity:		
Viasat, Inc. stockholders' equity		
Common stock	6	6
Paid-in capital	1,630,441	1,535,635

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Retained earnings	243,070	285,960
Accumulated other comprehensive income	7,047	15,565
Total Viasat, Inc. stockholders' equity	1,880,564	1,837,166
Noncontrolling interest in subsidiaries	5,482	10,841
Total equity	1,886,046	1,848,007
Total liabilities and equity	\$3,629,716	\$3,414,109

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2018	2017	2018	2017
	(In thousands, except per share data)			
Revenues:				
Product revenues	\$301,865	\$ 175,957	\$800,429	\$ 523,858
Service revenues	252,829	205,880	710,608	631,097
Total revenues	554,694	381,837	1,511,037	1,154,955
Operating expenses:				
Cost of product revenues	226,020	126,437	616,368	382,932
Cost of service revenues	176,686	137,275	523,348	410,538
Selling, general and administrative	114,566	100,125	340,328	279,382
Independent research and development	28,928	40,149	93,661	131,482
Amortization of acquired intangible assets	2,487	3,177	7,375	9,757
Income (loss) from operations	6,007	(25,326)	(70,043)	(59,136)
Other income (expense):				
Interest income	31	512	96	782
Interest expense	(14,896)	—	(40,294)	(253)
Loss on extinguishment of debt	—	—	—	(10,217)
Loss before income taxes	(8,858)	(24,814)	(110,241)	(68,824)
(Provision for) benefit from income taxes	(3,230)	(2,172)	35,679	18,472
Equity in income of unconsolidated affiliate, net	1,351	1,365	2,730	1,593
Net loss	(10,737)	(25,621)	(71,832)	(48,759)
Less: net loss attributable to noncontrolling				
interests, net of tax	(333)	(990)	(1,694)	(1,400)
Net loss attributable to Viasat, Inc.	\$(10,404)	\$(24,631)	\$(70,138)	\$(47,359)
Basic net loss per share attributable to Viasat, Inc.				
common stockholders	\$(0.17)	\$(0.42)	\$(1.17)	\$(0.81)
Diluted net loss per share attributable to Viasat,				
Inc. common stockholders	\$(0.17)	\$(0.42)	\$(1.17)	\$(0.81)
Shares used in computing basic net loss per share	60,152	58,638	59,698	58,237
Shares used in computing diluted net loss				
per share	60,152	58,638	59,698	58,237
Comprehensive income (loss):				
Net loss	\$(10,737)	\$(25,621)	\$(71,832)	\$(48,759)

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Other comprehensive income (loss), net of tax:				
Unrealized (loss) gain on hedging, net of tax	(50)	(28)	(338)	81
Foreign currency translation adjustments, net				
of tax	(1,279)	3,619	(8,180)	13,465
Other comprehensive (loss) income, net of tax	(1,329)	3,591	(8,518)	13,546
Comprehensive loss	(12,066)	(22,030)	(80,350)	(35,213)
Less: comprehensive loss attributable to				
noncontrolling interests, net of tax	(333)	(990)	(1,694)	(1,400)
Comprehensive loss attributable to Viasat, Inc.	\$(11,733)	\$(21,040)	\$(78,656)	\$(33,813)

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended	
	December 31,	December 31,
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$(71,832)	\$ (48,759)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	195,562	153,211
Amortization of intangible assets	42,543	33,165
Deferred income taxes	(37,137)	(19,940)
Stock-based compensation expense	58,658	49,132
Loss on disposition of fixed assets	38,374	25,768
Loss on extinguishment of debt	—	10,217
Other non-cash adjustments	9,229	4,685
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(38,909)	29,626
Inventories	(32,250)	(24,148)
Other assets	(15,430)	(24,938)
Accounts payable	4,234	5,804
Accrued liabilities	52,534	16,965
Other liabilities	9,085	71,807
Net cash provided by operating activities	214,661	282,595
Cash flows from investing activities:		
Purchase of property, equipment and satellites	(491,839)	(354,362)
Cash paid for patents, licenses and other assets	(32,500)	(55,249)
Proceeds from insurance claims on ViaSat-2 satellite	172,206	—
Proceeds from sale of real property	14,034	—
Other investing activities	(2,339)	—
Net cash used in investing activities	(340,438)	(409,611)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	465,000	—
Payments of revolving credit facility borrowings	(140,000)	—
Payments of Ex-Im credit facility borrowings	(210,115)	—
Proceeds from Ex-Im credit facility borrowings, net of discount	—	52,503
Proceeds from issuance of 2025 Notes	—	700,000
Repayment of 2020 Notes	—	(575,000)
Payment of debt extinguishment costs	—	(10,602)

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Payment of debt issuance costs	—	(9,759)
Proceeds from issuance of common stock under equity plans	23,595	25,732	
Purchase of common stock in treasury (immediately retired) related to tax			
withholdings for share-based awards	(28,108)	(23,663
Other financing activities	(9,735)	(1,267
Net cash provided by financing activities	100,637	157,944	
Effect of exchange rate changes on cash	(2,941)	795
Net (decrease) increase in cash and cash equivalents	(28,081)	31,723
Cash and cash equivalents at beginning of period	71,446	130,098	
Cash and cash equivalents at end of period	\$43,365	\$	161,821
Non-cash investing and financing activities:			
Issuance of common stock in satisfaction of certain accrued employee			
compensation liabilities	\$32,129	\$	16,409
Capital expenditures not paid for	\$34,237	\$	27,086
Exposure fees on Ex-Im credit facility financed through Ex-Im credit facility	\$—	\$	5,764

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(UNAUDITED)

	Viasat, Inc. Stockholders Common Stock			Accumulated			
	Number of Shares Issued (In thousands)	Paid-in Amount Capital (except share data)	Retained Earnings	Other Comprehensive Income (Loss)	Noncontrolling Interest in Subsidiaries	Total	
Balance at March 31, 2018	58,905,274	\$ 6 \$1,535,635	\$285,960	\$ 15,565	\$ 10,841	\$1,848,007	
Exercise of stock options	225,000	— 8,352	—	—	—	8,352	
Issuance of stock under Employee Stock Purchase Plan	289,024	— 15,243	—	—	—	15,243	
Stock-based compensation Shares and fully-vested RSUs issued in settlement of certain accrued employee compensation liabilities, net	—	— 67,109	—	—	—	67,109	
of shares withheld for taxes which have been retired	438,433	— 27,701	—	—	—	27,701	
RSU awards vesting, net of shares withheld for taxes which have been retired	622,532	— (23,680)	—	—	—	(23,680)	
Cumulative effect adjustment upon adoption of new revenue recognition guidance (ASU 2014-09)	—	— —	27,248	—	—	27,248	
Other noncontrolling interest activity	—	— 81	—	—	(3,665)	(3,584)	
Net loss	—	— —	(70,138)	—	(1,694)	(71,832)	
Other comprehensive loss, net of tax	—	— —	—	(8,518)	—	(8,518)	
	60,480,263	\$ 6 \$1,630,441	\$243,070	\$ 7,047	\$ 5,482	\$1,886,046	

Balance at December 31,
2018

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 December 31, 2018, the condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended December 31, 2018 and 2017, the condensed consolidated statements of cash flows for the nine months ended December 31, 2018 and 2017 and the condensed consolidated statement of equity for the nine months ended December 31, 2018 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 31, 2018 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 31, 2018 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 its majority-owned subsidiary, TrellisWare Technologies, Inc. During the third quarter of fiscal year 2019, Euro Broadband Retail Sàrl (Euro Broadband Retail), which was previously a majority-owned subsidiary, became a wholly owned subsidiary when the Company purchased the remaining 49% interest in Euro Broadband Retail for an insignificant amount. All significant intercompany amounts have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investment in unconsolidated affiliate in other assets (long-term) on the condensed consolidated balance sheets.

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

Effective April 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (commonly referred to as Accounting Standards Codification (ASC) 606). This update established ASC 606, Revenue from Contracts with Customers and ASC 340-40, Other Assets and Deferred Costs – Contracts with Customers.

In order to assess the impact of the new accounting standards, the Company applied the new standards to all open contracts existing as of April 1, 2018. The Company elected the practical expedient to reflect the aggregate effect of all contract modifications occurring before April 1, 2018 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations. The aggregated effect of applying this practical expedient did not have a significant impact on the Company's conclusions.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

To reflect the adoption of the new standards, the Company and its equity method investment investee elected to use the “modified retrospective method,” which resulted in the Company recording the retrospective cumulative effect to the opening balance of retained earnings. The following table presents the summary of the impact of adopting the new standards:

	As of		As of
	March	Adjustments	April 1,
	31,	Due to ASC	2018
	2018	606	2018
	(In thousands)		
Condensed Consolidated Balance Sheets:			
Accounts receivable, net	\$267,665	\$ (5,664)	\$262,001
Inventories	196,307	1,623	197,930
Prepaid expenses and other current assets	77,135	18,098	95,233
Other assets	686,134	19,107	705,241
Accrued liabilities	263,676	5,916	269,592
Retained earnings	285,960	27,248	313,208

The key impact of adoption is the deferral of commissions primarily in the Company’s satellite services segment, which were historically expensed as incurred as further described below.

The Company applied the five-step model under ASC 606 to its contracts with its customers to determine the impact of the new standard. Under this model the Company (1) identifies the contract with the customer, (2) identifies its performance obligations in the contract, (3) determines the transaction price for the contract, (4) allocates the transaction price to its performance obligations and (5) recognizes revenue when or as it satisfies its performance obligations. These performance obligations generally include the purchase of services (including broadband capacity and the leasing of broadband equipment), the purchase of products, and requirements to develop and deliver complex equipment built to customer specifications under long-term contracts.

Performance obligations

The timing of satisfaction of performance obligations may require judgment. The Company derives a substantial portion of its revenues from contracts with customers for services, primarily connectivity services including leasing of related broadband equipment. These contracts typically require advance or recurring monthly payments by the customer. The Company's obligation to provide connectivity services is satisfied over time as the customer simultaneously receives and consumes the benefits provided. The measure of progress over time is based upon either a period of time (e.g., over the estimated contractual term) or usage (e.g., bandwidth used/bytes of data processed). From a recognition perspective, the leasing of broadband equipment is evaluated in accordance with the authoritative guidance for leases (ASC 840). The Company's accounting for equipment leases involves specific determinations under ASC 840, which may involve complex provisions and significant judgments. In accordance with ASC 840, the Company applies the following criteria to determine the nature of the lease (e.g., as an operating or sales type lease): (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.

The Company also derives a portion of its revenues from contracts with customers to provide products. Performance obligations to provide products are satisfied at the point in time when control is transferred to the customer. These contracts typically require payment by the customer upon passage of control and determining the point at which control is transferred may require judgment. To identify the point at which control is transferred to the customer, the Company considers indicators that include, but are not limited to whether (1) the Company has the present right to payment for the asset, (2) the customer has legal title to the asset, (3) physical possession of the asset has been transferred to the customer, (4) the customer has the significant risks and rewards of ownership of the asset, and (5) the customer has accepted the asset. For product revenues, control generally passes to the customer upon delivery of goods to the customer.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The vast majority of the Company's revenues from long-term contracts to develop and deliver complex equipment built to customer specifications are derived from contracts with the U.S. government (including foreign military sales contracted through the U.S. government). The Company's contracts with the U.S. government typically are subject to the Federal Acquisition Regulation (FAR) and are priced based on estimated or actual costs of producing goods or providing services. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services provided under U.S. government contracts. The pricing for non-U.S. government contracts is based on the specific negotiations with each customer. Under the typical payment terms of the Company's U.S. government fixed-price contracts, the customer pays the Company either performance-based payments (PBPs) or progress payments. PBPs are interim payments based on quantifiable measures of performance or on the achievement of specified events or milestones. Progress payments are interim payments based on a percentage of the costs incurred as the work progresses. Because the customer can often retain a portion of the contract price until completion of the contract, the Company's U.S. government fixed-price contracts generally result in revenue recognized in excess of billings which the Company presents as unbilled accounts receivable on the balance sheet. Amounts billed and due from the Company's customers are classified as receivables on the balance sheet. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer. For the Company's U.S. government cost-type contracts, the customer generally pays the Company for its actual costs incurred within a short period of time. For non-U.S. government contracts, the Company typically receives interim payments as work progresses, although for some contracts, the Company may be entitled to receive an advance payment. The Company recognizes a liability for these advance payments in excess of revenue recognized and presents it as collections in excess of revenues and deferred revenues on the balance sheet. An advance payment is not typically considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect the Company from the other party failing to adequately complete some or all of its obligations under the contract.

Performance obligations related to developing and delivering complex equipment built to customer specifications under long-term contracts are recognized over time as these performance obligations do not create assets with an alternative use to the Company and the Company has an enforceable right to payment for performance to date. To measure the transfer of control, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company generally uses the cost-to-cost measure of progress for its contracts because that best depicts the transfer of control to the customer which occurs as the Company incurs costs on its contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. When estimates of total costs to be incurred on a performance obligation exceed total estimates of revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

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 concluded for fiscal years 2016 through 2018. As of December 31, 2018, the DCAA had completed its incurred cost audit for fiscal year 2004 and approved the Company's incurred cost claims for fiscal years 2005 through 2015 without further audit. Although the Company has recorded contract revenues subsequent to fiscal year 2015 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 December 31, 2018 and March 31, 2018, the Company had \$4.9 million and \$1.6 million, respectively, 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).

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Evaluation of transaction price

The evaluation of transaction price, including the amounts allocated to performance obligations, may require significant judgments. Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimation of total revenue, and where applicable the cost at completion, is complex, subject to many variables and requires significant judgment. The Company's contracts may contain award fees, incentive fees, or other provisions, including the potential for significant financing components, that can either increase or decrease the transaction price. These amounts, which are sometimes variable, can be dictated by performance metrics, program milestones or cost targets, the timing of payments, and customer discretion. The Company estimates variable consideration at the amount to which it expects to be entitled. The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available to the Company. The Company has elected the practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Estimating standalone selling prices may require judgment. When available, the Company utilizes the observable price of a good or service when the Company sells that good or service separately in similar circumstances and to similar customers. If a standalone selling price is not directly observable, the Company estimates the standalone selling price by considering all information (including market conditions, specific factors, and information about the customer or class of customer) that is reasonably available.

Transaction price allocated to remaining performance obligations

The Company's remaining performance obligations represent the transaction price of firm contracts and orders for which work has not been performed. The Company includes in its remaining performance obligations only those contracts and orders for which it has accepted purchase orders. Remaining performance obligations associated with the Company's subscribers for fixed consumer and business broadband services in its satellite services segment exclude month-to-month service contracts in accordance with a practical expedient and are estimated using a portfolio

approach in which the Company reviews all relevant promotional activities and calculates the remaining performance obligation using the average service component for the portfolio and the average time remaining under the contract. The Company's future recurring in-flight connectivity (IFC) service contracts in its satellite services segment, do not have minimum service purchase requirements and therefore are not included in the Company's remaining performance obligations. As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$1.8 billion, of which the Company expects to recognize approximately half over the next twelve months, with the balance recognized thereafter.

Disaggregation of revenue

The Company operates and manages its business in three reportable segments: satellite services, commercial networks and government systems. Revenue is disaggregated by products and services, customer type, contract type, and geographic area, respectively, as the Company believes this approach best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following sets forth disaggregated reported revenue by segment and product and services for the three and nine months ended December 31, 2018:

	Three Months Ended December 31, 2018			
	Satellite Services	Commercial Networks	Government Systems	Total Revenues
	(In thousands)			
Product revenues	\$—	\$ 115,409	\$ 186,456	\$ 301,865
Service revenues	177,651	11,568	63,610	252,829
Total revenues	\$ 177,651	\$ 126,977	\$ 250,066	\$ 554,694
	Nine Months Ended December 31, 2018			
	Satellite Services	Commercial Networks	Government Systems	Total Revenues
	(In thousands)			
Product revenues	\$—	\$ 304,732	\$ 495,697	\$ 800,429
Service revenues	494,174	31,831	184,603	710,608
Total revenues	\$ 494,174	\$ 336,563	\$ 680,300	\$ 1,511,037

Revenues from the U.S. government as an individual customer comprised approximately 23% and 27% of total revenues for the three and nine months ended December 31, 2018, respectively, mainly reported within the government systems segment. The Company's commercial customers, mainly reported within the commercial networks and satellite services segments, comprised approximately 77% and 73% of total revenues for the three and nine months ended December 31, 2018, respectively.

The Company's satellite services segment revenues are primarily derived from the Company's fixed broadband services, IFC services and worldwide managed network services.

Revenues in the Company's commercial networks and government systems segments are primarily derived from three types of contracts: fixed-price, cost-reimbursement and time-and-materials contracts. Fixed-price contracts (which require the Company to provide products and services under a contract at a specified price) comprised approximately 89% of the Company's total revenues for these segments for the three and nine months ended December 31, 2018. The remainder of the Company's revenues in these segments for such periods was derived primarily from cost-reimbursement contracts (under which the Company is reimbursed for all actual costs incurred in performing the

contract to the extent such costs are within the contract ceiling and allowable under the terms of the contract, plus a fee or profit) and from time-and-materials contracts (under which the Company is reimbursed for the number of labor hours expended at an established hourly rate negotiated in the contract, plus the cost of materials utilized in providing such products or services).

Historically, a significant portion of the Company's revenues in its commercial networks and government systems segments has been derived from customer contracts that include the development of products. The development efforts are conducted in direct response to the customer's specific requirements and, accordingly, expenditures related to such efforts are included in cost of sales when incurred and the related funding (which includes a profit component) is included in revenues. Revenues for the Company's funded development from its customer contracts were approximately 18% and 17% of its total revenues for the three and nine months ended December 31, 2018, respectively.

Revenues by geographic area for the three and nine months ended December 31, 2018 were as follows:

	Three Months Ended December 2018	Nine Months Ended December 31, 2018
	(In thousands)	
U.S. customers	\$492,681	\$ 1,341,073
Non U.S. customers	62,013	169,964
Total revenues	\$554,694	\$ 1,511,037

The Company distinguishes revenues from external customers by geographic area based on customer location.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Contract balances

Contract balances consist of contract asset and contract liability. A contract asset, or with respect to the Company, an unbilled accounts receivable, is recorded when revenue is recognized in advance of the Company's right to bill and receive consideration, typically resulting from sales under long-term contracts. Unbilled accounts receivable are generally expected to be billed and collected within one year. The unbilled accounts receivable will decrease as provided service or delivered products are billed. The Company receives payments from customers based on a billing schedule established in the Company's contracts.

When consideration is received in advance of the delivery of goods or services, a contract liability, or with respect to the Company, collections in excess of revenues or deferred revenues, is recorded. Reductions in the collections in excess of revenues or deferred revenues will be recorded as the Company satisfies the performance obligations.

The following table presents contract assets and liabilities as of December 31, 2018 and April 1, 2018:

	As of December 31, 2018	As of April 1, 2018
	(In thousands)	
Unbilled accounts receivable	\$87,085	\$79,492
Collections in excess of revenues and deferred revenues	127,286	127,355
Deferred revenues, long-term portion	81,877	77,831

During the three and nine months ended December 31, 2018, the Company recognized revenue of \$12.6 million and \$94.7 million, respectively, related to the Company's collections in excess of revenues and deferred revenues at April 1, 2018.

Other assets and deferred costs – contracts with customers

The adoption of ASU 2014-09 also included the establishment of ASC 340-40, Other Assets and Deferred Costs – Contracts with Customers. The new standard requires the recognition of an asset from the incremental costs of obtaining a contract with a customer, if the Company expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. ASC 340-40 also requires the recognition of an asset from the costs incurred to fulfill a contract when (1) the costs relate directly to a contract or to an anticipated contract that the Company can specifically identify, (2) the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and (3) the costs are expected to be recovered. Adoption of the standard has resulted in the recognition of an asset related to commission costs incurred primarily in the Company's satellite services segment, and recognition of an asset related to costs incurred to fulfill contracts. Costs to acquire customer contracts are amortized over the estimated customer contract life. Costs to fulfill customer contracts are amortized in proportion to the revenue to which the costs relate. For contracts with an estimated amortization period of less than one year, the Company elected the practical expedient and expenses incremental costs immediately. The Company's deferred customer contract acquisition costs and costs to fulfill contract balances were \$49.5 million and \$8.7 million as of December 31, 2018, respectively. Of the Company's total deferred customer contract acquisition costs and costs to fulfill contracts, \$19.6 million was included in prepaid expenses and other current assets and \$38.6 million was included in other assets on the Company's condensed consolidated balance sheet as of December 31, 2018. For total deferred customer contract acquisition costs and contract fulfillment costs, the Company's amortization and reduction of carrying value associated with contract termination was \$10.6 million and \$30.9 million, for the three and nine months ended December 31, 2018, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Comparative results

The Company adopted ASC 606 as of April 1, 2018 using the “modified retrospective method” under which the Company is required to provide additional disclosures comparing results to previous accounting standards. Accordingly, the following table presents the Company’s reported results under ASC 606 and the Company’s pro forma results using the historical accounting method under ASC 605 for the three and nine months ended December 31, 2018 and as of December 31, 2018:

	Three Months Ended December 31, 2018		
	As Reported (In thousands, except per share data)	Impact of ASC 606	Historical Accounting Method
Condensed Consolidated Statements of Operations			
and Comprehensive Income (Loss):			
Product revenues	\$301,865	\$ (789)	\$ 301,076
Service revenues	252,829	(771)	252,058
Total revenues	554,694	(1,560)	553,134
Cost of product revenues	226,020	(522)	225,498
Cost of service revenues	176,686	(47)	176,639
Selling, general and administrative	114,566	1,038	115,604
Independent research and development	28,928	1,658	30,586
Income from operations	6,007	(3,687)	2,320
Interest expense	(14,896)	1,084	(13,812)
Loss before income taxes	(8,858)	(2,603)	(11,461)
Provision for income taxes	(3,230)	1,970	(1,260)
Net loss	(10,737)	(633)	(11,370)
Net loss attributable to Viasat, Inc.	(10,404)	(633)	(11,037)
Basic net loss per share attributable to Viasat, Inc.			
common stockholders	\$(0.17)	\$(0.01)	\$(0.18)
Diluted net loss per share attributable to Viasat, Inc.			
common stockholders	\$(0.17)	\$(0.01)	\$(0.18)

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

	Nine Months Ended December 31, 2018		
		Historical	
	As	Impact of	Accounting
	Reported	ASC 606	Method
	(In thousands, except per share data)		
Condensed Consolidated Statements of Operations			
and Comprehensive Income (Loss):			
Product revenues	\$800,429	\$(4,990)	\$795,439
Service revenues	710,608	(2,348)	708,260
Total revenues	1,511,037	(7,338)	1,503,699
Cost of product revenues	616,368	(3,669)	612,699
Cost of service revenues	523,348	(117)	523,231
Selling, general and administrative	340,328	7,247	347,575
Independent research and development	93,661	5,903	99,564
Loss from operations	(70,043)	(16,702)	(86,745)
Interest expense	(40,294)	3,087	(37,207)
Loss before income taxes	(110,241)	(13,614)	(123,855)
Benefit from income taxes	35,679	3,725	39,404
Net loss	(71,832)	(9,890)	(81,722)
Net loss attributable to Viasat, Inc.	(70,138)	(9,890)	(80,028)
Basic net loss per share attributable to Viasat, Inc.			
common stockholders	\$(1.17)	\$(0.17)	\$(1.34)
Diluted net loss per share attributable to Viasat, Inc.			
common stockholders	\$(1.17)	\$(0.17)	\$(1.34)

As of December 31, 2018

Historical

Impact of Accounting

As

Reported ASC 606 Method

(In thousands)

Condensed Consolidated Balance Sheets:

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Accounts receivable, net	\$295,325	\$2,047	\$ 297,372
Inventories	230,122	(1,744)	228,378
Prepaid expenses and other current assets	115,844	(17,620)	98,224
Other assets	744,851	(25,104)	719,747
Accrued liabilities	292,260	(5,282)	286,978
Retained earnings	243,070	(37,138)	205,932

Advertising costs

In accordance with the authoritative guidance for advertising costs (ASC 720-35), advertising costs are expensed as incurred and included in selling, general and administrative (SG&A) expenses. Advertising expenses for the three months ended December 31, 2018 and 2017 were \$12.2 million and \$3.2 million, respectively, and for the nine months ended December 31, 2018 and 2017 were \$29.1 million and \$6.7 million, respectively.

Property, equipment and satellites

Satellites and other property and equipment, including internally developed software, 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 earth stations, 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

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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. Costs related to internally developed software for internal uses are capitalized after the preliminary project stage is complete and are amortized over the estimated useful lives of the assets. 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, which for the periods presented, primarily related to losses incurred for unreturned customer premise equipment (CPE). The Company computes depreciation using the straight-line method over the estimated useful lives of the assets ranging from two to 24 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.

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). With respect to the ViaSat-3 class satellites, gateway and networking equipment and other assets under construction, the Company capitalized \$15.6 million and \$29.3 million of interest expense for the three and nine months ended December 31, 2018, respectively. With respect to the ViaSat-2 satellite, ViaSat-3 class satellites, gateway and networking equipment and other assets under construction, the Company capitalized \$15.8 million and \$46.5 million of interest expense for the three and nine months ended December 31, 2017, respectively.

The Company owns three satellites in service: ViaSat-2 (its second-generation high-capacity Ka-band spot-beam satellite, which was placed into service in the fourth quarter of fiscal year 2018), ViaSat-1 (its first-generation 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). The Company currently has two third-generation ViaSat-3 class satellites that have entered the phase of full construction. The Company also has an exclusive prepaid lifetime capital lease of Ka-band capacity over the contiguous United States on Telesat Canada's Anik F2 satellite (which was placed into service in April 2005) and owns related earth stations 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 procures indoor and outdoor 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, earth stations 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 December 31, 2018 were \$354.4 million and \$137.6 million, respectively. The total cost and accumulated depreciation of CPE units included in property and equipment, net, as of March 31, 2018 were \$298.7 million and \$129.0 million, respectively.

On June 1, 2017, the Company's second-generation ViaSat-2 satellite was successfully launched into orbit. In the fourth quarter of fiscal year 2018, shortly before the launch of commercial broadband services on the satellite, the Company reported an antenna deployment issue. The Company worked with the satellite manufacturer to determine the root cause of the antenna deployment issue, potential correcting measures, and resulting damage. In the second quarter of fiscal year 2019, the root cause analysis was completed. Based on that analysis, during the second quarter of

fiscal year 2019, the Company recorded a reduction to the carrying value of the ViaSat-2 satellite of \$177.4 million, with a corresponding insurance receivable of \$177.4 million, based on the Company's estimated ViaSat-2 output capabilities as compared to the anticipated, potential and configured capacity of the ViaSat-2 satellite. During the second and third quarters of fiscal year 2019, the Company received \$172.2 million in insurance recovery proceeds related to such claims. The Company recorded an insurance receivable of \$12.3 million as of December 31, 2018 with respect to probable remaining ViaSat-2 related insurance claims. As a result, during the third quarter of fiscal year 2019, the Company recorded a \$4.0 million gain related to ViaSat-2 insurance claims in SG&A expenses in its satellite services segment in the condensed consolidated statements of operations and comprehensive incomes (loss). The ViaSat-2 satellite was primarily financed by the Ex-Im Credit Facility (see Note 6 — Senior Notes and Other Long-Term Debt for more information). Pursuant to the terms of the Ex-Im Credit Facility, insurance proceeds received from such claims were used to pay down outstanding borrowings under the Ex-Im Credit Facility.

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.

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. Total capitalized costs of \$3.2 million related to patents were included in other assets as of December 31, 2018 and March 31, 2018. The Company capitalized costs of \$16.4 million and \$15.4 million related to acquiring and obtaining orbital slots and other licenses included in other assets as of December 31, 2018 and March 31, 2018, respectively. Accumulated amortization related to these assets was \$2.9 million and \$2.5 million as of December 31, 2018 and March 31, 2018, respectively. Amortization expense related to these assets was an insignificant amount for the three and nine months ended December 31, 2018 and 2017. 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 and nine months ended December 31, 2018 and 2017, 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 using the effective interest rate method, or, when the results are not materially different, on a straight-line basis over the expected term of the related debt. During the three months ended December 31, 2018 and 2017, no debt issuance costs were capitalized. The Company capitalized no and \$9.8 million of debt issuance costs during the nine months ended December 31, 2018 and 2017, respectively. 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 condensed consolidated statements of operations and comprehensive income (loss). Debt issuance costs related to the Company's revolving credit facility (the Revolving Credit Facility) are recorded in prepaid expenses and other current assets and in other long-term assets in the condensed consolidated balance sheets in accordance with the authoritative guidance for imputation of interest (ASC 835-30). Debt issuance costs related to the Company's 5.625% Senior Notes due 2025 (the 2025 Notes) and the Ex-Im Credit Facility are recorded as a direct deduction from the carrying amount of the related debt, consistent with debt discounts, in accordance with the authoritative guidance for imputation of interest (ASC 835-30).

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 \$244.9 million and \$246.8 million related to software developed for resale were included in other assets as of December 31, 2018 and March 31, 2018, respectively. The Company capitalized \$11.7 million and \$32.7 million of costs related to software developed for resale for the three and nine months ended December 31, 2018, respectively. The Company capitalized \$20.2 million and \$58.0 million of costs related to software developed for resale for the three and nine months ended December 31, 2017, respectively. Amortization expense for capitalized software development costs was \$11.5 million and \$34.6 million for the three and nine months

ended December 31, 2018, respectively, and \$6.8 million and \$23.1 million for the three and nine months ended December 31, 2017, 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 \$5.2 million and \$4.5 million in accrued liabilities in the condensed consolidated balance sheets as of December 31, 2018 and March 31, 2018, 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.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 December 31, 2018 and March 31, 2018, no such amounts were accrued related to the aforementioned provisions.

Noncontrolling interests

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.

Investments in unconsolidated affiliate — equity method

Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investment in unconsolidated affiliate in other assets (long-term) on the condensed consolidated balance sheets. The Company records its share of the results of such entities within equity in income (loss) of unconsolidated affiliate, net on the condensed consolidated statements of operations and comprehensive income (loss). The Company monitors such investments for other-than-temporary impairment by considering factors including the current economic and market conditions and the operating performance of the entities and records reductions in carrying values when necessary. The fair value of privately held investments is estimated using the best available information as of the valuation date, including current earnings trends, undiscounted cash flows, quoted stock prices of comparable public companies, and other company specific information, including recent financing rounds.

Common stock held in treasury

As of December 31, 2018 and March 31, 2018, the Company had no shares of common stock held in treasury.

During the nine months ended December 31, 2018 and 2017, the Company issued 1,172,049 and 872,271 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, during the nine months ended December 31, 2018 and 2017, the Company repurchased 417,465 and 327,585 shares of common stock, respectively, at cost and with a total value of

\$28.1 million and \$23.7 million, respectively. Although shares withheld for employee withholding taxes are technically not issued, they are treated as common stock repurchases for accounting purposes (with such shares deemed to be repurchased and then immediately retired), as they reduce the number of shares that otherwise would have been issued upon vesting of the restricted stock units. These retired shares remain as authorized stock and are considered to be unissued. The retirement of treasury stock had no impact on the Company's total consolidated stockholders' equity.

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.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

During the three and nine months ended December 31, 2018 and 2017, the Company settled certain foreign exchange contracts and in connection therewith for each period recognized an insignificant gain or loss 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 insignificant amount recorded as an accrued liability as of December 31, 2018 and an other current asset as of March 31, 2018. The notional value of foreign currency forward contracts outstanding was \$12.4 million as of December 31, 2018 and an insignificant amount as of March 31, 2018.

As of December 31, 2018, 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 12 months was insignificant. The Company's foreign currency forward contracts outstanding as of December 31, 2018 will mature within approximately 21 months from their inception. There were no gains or losses from ineffectiveness of these derivative instruments recorded for the three and nine months ended December 31, 2018 and 2017.

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. Expense for restricted stock units and stock options is recognized on a straight-line basis over the employee's requisite service period. Expense for total shareholder return (TSR) performance stock options that vest is recognized regardless of the actual TSR outcome achieved and is recognized on a graded-vesting basis. The Company accounts for forfeitures as they occur. The Company recognized \$20.2 million and \$58.7 million of stock-based compensation expense for the three and nine months ended December 31, 2018, respectively. The Company recognized \$17.6 million and \$49.1 million of stock-based compensation expense for the three and nine months ended December 31, 2017, respectively.

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 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.

The Company calculates its provision for income taxes at the end of each interim reporting period on the basis of an estimated annual effective tax rate adjusted for tax items that are discrete to each period.

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.

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VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Recent authoritative guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. This guidance replaced most existing revenue recognition guidance and became effective for the Company beginning in fiscal year 2019, including interim periods within that reporting period, based on the FASB decision in July 2015 (ASU 2015-14, Revenue from Contracts with Customers — Deferral of the Effective Date) to delay the effective date of the new revenue recognition standard by one year, but providing entities a choice to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which provides practical expedient for contract modifications and clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to ASC 606, Revenue from Contracts with Customers, which provides for correction or improvement to the guidance previously issued in ASU 2014-09. These standards permit the use of either the retrospective or cumulative effect transition method. The Company adopted this standard effective as of April 1, 2018 utilizing the “modified retrospective method.” For additional information see Note 1 – *Revenue recognition*.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825-10). ASU 2016-01 requires that most equity investments (except those accounted for under the equity method for accounting or those that result in consolidation of the investee) be measured at fair value, with subsequent changes in fair value recognized in net income (loss). The new guidance also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The new guidance was required to be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall (ASC 825-10), which clarified certain aspects of the guidance issued in ASU 2016-01. ASU 2016-01 became effective for the Company in fiscal year 2019. The Company adopted the guidance in ASU 2016-01 beginning in the first quarter of fiscal year 2019 on a modified retrospective basis and adopted the guidance in ASU 2018-03 beginning in the second quarter of fiscal year 2019. The guidance in both ASU 2016-01 and ASU 2018-03 did not have a material impact on the Company’s consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842). ASU 2016-02 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets and eliminates certain real estate-specific provisions. In January 2018, the FASB issued ASU 2018-01, Leases (ASC 842). ASU 2018-01 permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity’s adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to ASC 842, Leases, which was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. In July 2018, the FASB issued ASU 2018-11, Leases (ASC 842): Targeted Improvements, which provides an additional (and optional) transition

method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. In December 2018, the FASB issued ASU 2018-20, Leases (ASC 842): Narrow-Scope Improvements for Lessors, which provides certain amendments that affect narrow aspects of the guidance issued in ASU 2016-02. The new guidance will become effective for the Company beginning in the first quarter of fiscal year 2020, with early adoption permitted. The Company expects to adopt the new guidance on April 1, 2019, using the optional transition method. Therefore, it is expected that periods prior to the effective date of adoption will continue to be reported under the current authoritative guidance for leases (ASC 840). Upon adoption, the Company expects a material impact to its consolidated balance sheet due to the recognition of lease liabilities and right-of-use assets. The Company does not expect the new guidance to have a material impact on its consolidated statement of operations and comprehensive income (loss) or statement of cash flows.

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In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (ASC 326). ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Subsequently, in November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses (ASC 326), which clarifies that impairment of receivables arising from operating leases should be accounted for in accordance with ASC 842, Leases. The new guidance will become effective for the Company beginning in fiscal year 2021, with early adoption permitted. The new guidance is required to be applied on a modified-retrospective basis. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (ASC 230). ASU 2016-15 makes eight targeted changes to how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new standard became effective for the Company beginning in fiscal year 2019, with early adoption permitted. The new standard required adoption on a retrospective basis unless impracticable to apply, in which case the Company would have been required to apply the amendments prospectively as of the earliest date practicable. The Company early adopted the guidance on a retrospective basis in the second quarter of fiscal year 2018 and as a result cash payments for debt prepayment and extinguishment were classified as cash outflows for financing activities in fiscal year 2018. Otherwise the adoption of this guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (ASC 740). ASU 2016-16 requires that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs as opposed to when the asset has been sold to an outside party. The new standard became effective for the Company beginning in the first quarter of fiscal year 2019. The new standard requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period. The Company adopted this guidance beginning in the first quarter of fiscal year 2019 on a modified retrospective basis and the guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business (ASC 805). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The new standard became effective for the Company beginning in the first quarter of fiscal year 2019. The Company adopted this guidance beginning in the first quarter of fiscal year 2019 on a prospective basis and the guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment (ASC 350). ASU 2017-04 removes Step 2 from the goodwill impairment test. The standard will become effective for the Company beginning in fiscal year 2021, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

In February 2017, the FASB issued ASU 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (ASC 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 clarifies the scope and accounting of a financial asset that meets the definition of an “in-substance nonfinancial asset” and defines the term “in-substance nonfinancial asset.” ASU 2017-05 also adds guidance for partial sales of nonfinancial assets. The standard became effective for the Company beginning in the first quarter of fiscal year 2019. The Company adopted this guidance beginning in the first quarter of fiscal year 2019 on a prospective basis and the guidance did not have a material impact on the Company’s consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (ASC 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 amends the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The standard will become effective for the Company beginning in fiscal year 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

In May 2017, the FASB issued ASU 2017-09, Compensation — Stock Compensation (ASC 718): Scope of Modification Accounting. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The standard became effective for the Company beginning in the first quarter of fiscal year 2019. The Company early adopted this standard beginning in the fourth quarter of fiscal year 2018. The guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (ASC 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (ASC 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index SWAP (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU 2018-16 permits use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes. These standards will become effective for the Company beginning in fiscal year 2020, with early adoption permitted. The Company is currently evaluating the impact of these standards on its consolidated financial statements and disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (ASC 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 simplifies the accounting for nonemployee share-based payment transactions. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The new standard will become effective for the Company beginning in fiscal year 2020, with early adoption permitted. The Company early adopted the guidance in the first quarter of fiscal year 2019 and the guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, which is related to a project by the FASB to facilitate codification updates for technical corrections, clarifications and other minor improvements. The new standard contains amendments that affect a wide variety of topics in the ASC. The effective date of the standard is dependent on the facts and circumstances of each amendment. Some amendments do not require transition guidance and were effective upon the issuance of this standard. A majority of the amendments in ASU 2018-09 will become effective for the Company beginning in fiscal year 2020. The Company is currently evaluating the impact of this standard on its consolidated financial statements and disclosures, however this standard has not and is not expected to have a material impact on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (ASC 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The new standard will become effective for the Company beginning in fiscal year 2021, with early adoption permitted. The Company is currently evaluating

the impact of this standard on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (ASC 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The new standard will become effective for the Company beginning in fiscal year 2021, with early adoption permitted. The Company early adopted the guidance in the second quarter of fiscal year 2019 on a prospective basis and the adoption of the guidance did not have a material impact on the Company’s consolidated financial statements and disclosures.

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Note 2 — Composition of Certain Balance Sheet Captions

	As of December 31, 2018 (In thousands)	As of March 31, 2018
Accounts receivable, net:		
Billed	\$209,587	\$184,536
Unbilled	87,085	85,156
Allowance for doubtful accounts	(1,347)	(2,027)
	\$295,325	\$267,665
Inventories:		
Raw materials	\$78,850	\$62,252
Work in process	52,240	47,465
Finished goods	99,032	86,590
	\$230,122	\$196,307
Prepaid expenses and other current assets:		
Prepaid expenses	\$81,155	\$68,516
Insurance receivable	12,317	—
Other	22,372	8,619
	\$115,844	\$77,135
Satellites, net:		
Satellites (estimated useful life of 10-17 years)	\$978,114	\$1,152,503
Capital lease of satellite capacity — Anik F2 (estimated useful life of 10 years)	99,090	99,090
Satellites under construction	543,556	362,342
	1,620,760	1,613,935
Less: accumulated depreciation and amortization	(432,160)	(373,948)
	\$1,188,600	\$1,239,987
Property and equipment, net:		
Equipment and software (estimated useful life of 2-7 years)	\$970,351	\$864,140
CPE leased equipment (estimated useful life of 4-5 years)	354,430	298,746
Furniture and fixtures (estimated useful life of 7 years)	46,049	35,234
Leasehold improvements (estimated useful life of 2-17 years)	122,021	111,841
Building (estimated useful life of 24 years)	8,923	8,923
Land	2,291	15,322
Construction in progress	167,897	108,192
	1,671,962	1,442,398
Less: accumulated depreciation	(806,619)	(719,910)

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	\$865,343	\$722,488
Other acquired intangible assets, net:		
Technology (weighted average useful life of 6 years)	\$90,046	\$90,652
Contracts and customer relationships (weighted average useful life of 7 years)	103,321	103,808
Satellite co-location rights (weighted average useful life of 9 years)	8,600	8,600
Trade name (weighted average useful life of 3 years)	5,940	5,940
Other (weighted average useful life of 6 years)	10,013	10,137
	217,920	219,137
Less: accumulated amortization	(193,160)	(187,275)
	\$24,760	\$31,862
Other assets:		
Investment in unconsolidated affiliate	\$162,617	\$163,835
Deferred income taxes	251,992	222,274
Capitalized software costs, net	244,924	246,792
Patents, orbital slots and other licenses, net	16,700	16,100
Other	68,618	37,133
	\$744,851	\$686,134
Accrued liabilities:		
Collections in excess of revenues and deferred revenues	\$127,286	\$121,439
Accrued employee compensation	55,418	46,106
Accrued vacation	39,971	39,022
Warranty reserve, current portion	5,311	5,357
Other	64,274	51,752
	\$292,260	\$263,676
Other liabilities:		
Deferred revenues, long-term portion	\$81,877	\$77,831
Deferred rent, long-term portion	16,525	13,769
Warranty reserve, long-term portion	1,696	1,557
Satellite performance incentive obligations, long-term portion	25,292	18,181
Other	6,580	9,902
	\$131,970	\$121,240

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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 determines fair value based on the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants, and 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 instrument's valuation.

The Company had no assets and an insignificant amount of liabilities (Level 2) measured at fair value on a recurring basis as of December 31, 2018, and had an insignificant amount of assets (Level 1) and no liabilities measured at fair value on a recurring basis as of March 31, 2018.

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 borrowings under its Revolving Credit Facility and Ex-Im Credit Facility (collectively, the Credit Facilities), as well as \$700.0 million in aggregate principal amount of 2025 Notes. Long-term debt related to the Revolving Credit Facility is reported at the outstanding principal amount of borrowings, while long-term debt related to the Ex-Im Credit Facility and the Company's current and former senior

notes (including the 2025 Notes) is 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 December 31, 2018 and March 31, 2018, the estimated fair value of the Company's outstanding long-term debt related to the 2025 Notes was determined based on actual or estimated bids and offers for the 2025 Notes in an over-the-counter market (Level 2) and was \$644.0 million and \$674.0 million, respectively. The fair value of the Company's long-term debt related to the Revolving Credit Facility approximates its carrying amount due to its variable interest rate, which approximates a market interest rate. As of December 31, 2018 and March 31, 2018, the fair value of the Company's long-term debt related to the Ex-Im Credit Facility was determined based on a discounted cash flow analysis using observable market interest rates for instruments with similar terms (Level 2) and was approximately \$144.7 million and \$347.4 million, respectively.

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Satellite performance incentive obligations — The Company's contracts with the manufacturers of the ViaSat-1 and ViaSat-2 satellites require the Company to make monthly in-orbit satellite performance incentive payments, including interest, through approximately fiscal year 2028, subject to the continued satisfactory performance of the applicable satellites. The Company records 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 incentive obligations on a recurring basis. The fair value of the Company's outstanding satellite performance incentive obligations is estimated to approximate their carrying value based on current rates (Level 2). As of December 31, 2018 and March 31, 2018, the Company's estimated satellite performance incentive obligations relating to the ViaSat-1 and ViaSat-2 satellites, including accrued interest, were \$33.4 million and \$21.0 million, respectively.

Note 4 — Shares Used In Computing Diluted Net Loss Per Share

The weighted average number of shares used to calculate basic and diluted net loss per share attributable to Viasat, Inc. common stockholders is the same for the three and nine months ended December 31, 2018 and 2017, as the Company incurred a net loss attributable to Viasat, Inc. common stockholders for such periods and inclusion of potentially dilutive weighted average shares of common stock would be antidilutive. Potentially dilutive weighted average shares of common stock excluded from the calculation for the three and nine months ended December 31, 2018 were 1,276,242 and 1,297,427 shares relating to stock options (other than TSR performance stock options), respectively, 1,101,149 and 707,353 shares relating to restricted stock units, respectively, 630,102 and 498,062 relating to TSR performance stock options, respectively, and 289,006 and 249,077 shares relating to certain terms of the ViaSat 401(k) Profit Sharing Plan and Employee Stock Purchase Plan, respectively. Potentially dilutive weighted average shares of common stock excluded from the calculation for the three and nine months ended December 31, 2017 were 1,355,232 and 1,376,667 shares relating to stock options (other than TSR performance stock options), respectively, 270,256 and 90,413 shares relating to TSR performance stock options, respectively, 1,208,047 and 811,747 shares relating to restricted stock units, respectively, and 183,537 and 163,440 shares relating to certain terms of the ViaSat 401(k) Profit Sharing Plan and Employee Stock Purchase Plan, respectively.

Note 5 — Goodwill and Acquired Intangible Assets

During the nine months ended December 31, 2018, the increase in the Company's goodwill related to an insignificant acquisition, partially offset by the effects of foreign currency translation recorded within all three of the Company's segments.

Other acquired intangible assets are amortized using the straight-line method over their estimated useful lives of two to ten years. Amortization expense related to other acquired intangible assets was \$2.5 million and \$3.2 million for the three months ended December 31, 2018 and 2017, respectively, and \$7.4 million and \$9.8 million for the nine months ended December 31, 2018 and 2017, 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 nine months ended December 31, 2018	\$ 7,375
Expected for the remainder of fiscal year 2019	\$ 2,209
Expected for fiscal year 2020	7,524
Expected for fiscal year 2021	5,133
Expected for fiscal year 2022	3,310
Expected for fiscal year 2023	3,005
Thereafter	3,579
	\$ 24,760

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 6 — Senior Notes and Other Long-Term Debt

Total long-term debt consisted of the following as of December 31, 2018 and March 31, 2018:

	As of	As of
	December 31, 2018	March 31, 2018
	(In thousands)	
2025 Notes	\$700,000	\$ 700,000
Revolving Credit Facility	325,000	—
Ex-Im Credit Facility	152,286	362,401
Total debt	1,177,286	1,062,401
Unamortized discount and debt issuance costs	(18,696)	(38,696)
Less: current portion of long-term debt	21,755	45,300
Total long-term debt	\$1,136,835	\$ 978,405

Revolving Credit Facility

As of December 31, 2018, the Revolving Credit Facility provided an \$800.0 million revolving line of credit (including up to \$150.0 million of letters of credit), with a maturity date of May 24, 2021.

Borrowings under the Revolving 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. At December 31, 2018, the weighted average effective interest rate on the Company's outstanding borrowings under the Revolving Credit Facility was 5.18%. The Company has capitalized certain amounts of interest expense on the Revolving Credit Facility in connection with the construction of various assets during the construction period. The Revolving Credit Facility is required to be guaranteed by certain significant domestic subsidiaries of the Company (as defined in the Revolving Credit Facility) and secured by substantially all of the Company's and any such subsidiaries' assets. As of December 31, 2018, none of the Company's subsidiaries guaranteed the Revolving Credit Facility.

The Revolving Credit Facility contains financial covenants regarding a maximum total leverage ratio and a minimum interest coverage ratio. In addition, the Revolving 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 Revolving Credit Facility as of December 31, 2018. At December 31, 2018, the Company had \$325.0 million in principal amount of outstanding borrowings under the Revolving Credit Facility and \$19.8 million outstanding under standby letters of credit, leaving borrowing

availability under the Revolving Credit Facility as of December 31, 2018 of \$455.2 million.

On January 18, 2019, subsequent to the end of the fiscal third quarter, the Revolving Credit Facility was amended to, among other matters, extend the maturity date from May 2021 to January 2024, reduce the interest margin and provide additional covenant flexibility.

Ex-Im Credit Facility

As of December 31, 2018, the Ex-Im Credit Facility provided a \$362.4 million senior secured direct loan facility, which was fully drawn. Of the \$362.4 million in principal amount of borrowings made under the Ex-Im Credit Facility, \$321.2 million was used to finance up to 85% of the costs of construction, launch and insurance of the ViaSat-2 satellite and related goods and services (including costs incurred on or after September 18, 2012), with the remaining \$41.2 million used to finance the total exposure fees incurred under the Ex-Im Credit Facility (which included all previously accrued completion exposure fees). As of December 31, 2018, the Company had \$152.3 million in principal amount of outstanding borrowings under the Ex-Im Credit Facility.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Borrowings under the Ex-Im Credit Facility bear interest at a fixed rate of 2.38%, payable semi-annually in arrears. The effective interest rate on the Company's outstanding borrowings under the Ex-Im Credit Facility, which takes into account timing and amount of borrowings and payments, exposure fees, debt issuance costs and other fees, is 4.52%. Borrowings under the Ex-Im Credit Facility are required to be repaid in 16 approximately equal semi-annual principal installments, which commenced on April 15, 2018, with a maturity date of October 15, 2025. Pursuant to the terms of the Ex-Im Credit Facility, certain insurance recovery proceeds related to the ViaSat-2 satellite must be used to pay down outstanding borrowings under the Ex-Im Credit Facility upon receipt. During the second and third quarters of fiscal year 2019, the Company received \$172.2 million of insurance proceeds related to the ViaSat-2 satellite, all of which were used to pay down outstanding borrowings under the Ex-Im Credit Facility upon receipt (see Note 1 – Property, equipment and satellites for more information). The Ex-Im Credit Facility is guaranteed by Viasat and is secured by first-priority liens on the ViaSat-2 satellite and related assets, as well as a pledge of the capital stock of the borrower under the facility.

The Ex-Im Credit Facility contains financial covenants regarding Viasat's maximum total leverage ratio and minimum interest coverage ratio. In addition, the Ex-Im 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 Ex-Im Credit Facility as of December 31, 2018.

Borrowings under the Ex-Im Credit Facility are recorded as current portion of long-term debt and as other long-term debt, net of unamortized discount and debt issuance costs, in the Company's condensed consolidated financial statements. The discount of \$42.3 million (comprising the initial \$6.0 million pre-exposure fee, \$35.3 million of completion exposure fees, and other customary fees) and deferred financing cost associated with the issuance of the borrowings under the Ex-Im Credit Facility is amortized to interest expense on an effective interest rate basis over the weighted average term of the Ex-Im Credit Facility and in accordance with the related payment obligations.

Senior Notes

Senior Notes due 2025

In September, 2017, the Company issued \$700.0 million in principal amount of 2025 Notes in a private placement to institutional buyers. The 2025 Notes were issued at face value and are recorded as long-term debt, net of debt issuance costs, in the Company's condensed consolidated financial statements. The 2025 Notes bear interest at the rate of 5.625% per year, payable semi-annually in cash in arrears, which interest payments commenced in March 2018. Debt issuance costs associated with the issuance of the 2025 Notes are amortized to interest expense on a straight-line basis over the term of the 2025 Notes, the results of which are not materially different from the effective interest rate basis.

The 2025 Notes are required to be guaranteed on an unsecured senior basis by each of the Company's existing and future subsidiaries that guarantees the Revolving Credit Facility. As of December 31, 2018, none of the Company's subsidiaries guaranteed the 2025 Notes. The 2025 Notes are the Company's general senior unsecured obligations and rank equally in right of payment with all of the Company's existing and future unsecured unsubordinated debt. The 2025 Notes are effectively junior in right of payment to the Company's existing and future secured debt, including under the Credit Facilities (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 do not guarantee the 2025 Notes, and are senior in right of payment to all of their existing and future subordinated indebtedness.

The indenture governing the 2025 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.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Prior to September 15, 2020, the Company may redeem up to 40% of the 2025 Notes at a redemption price of 105.625% 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 2025 Notes prior to September 15, 2020, 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 2025 Notes and (ii) the excess, if any, of (a) the present value at such date of redemption of (1) the redemption price of such 2025 Notes on September 15, 2020 plus (2) all required interest payments due on such 2025 Notes through September 15, 2020 (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 2025 Notes. The 2025 Notes may be redeemed, in whole or in part, at any time during the 12 months beginning on September 15, 2020 at a redemption price of 102.813%, during the 12 months beginning on September 15, 2021 at a redemption price of 101.406%, and at any time on or after September 15, 2022 at a redemption price of 100%, in each case plus accrued and unpaid interest, if any, thereon to the redemption date.

In the event a change of control triggering event 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 2025 Notes at a purchase price in cash equal to 101% of the aggregate principal amount of the 2025 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).

Discharge of indenture and loss on extinguishment of debt

In connection with the Company's issuance of the 2025 Notes in September 2017, the Company repurchased and redeemed all of its \$575.0 million in aggregate principal amount of 6.875% Notes due 2020 (the 2020 Notes) then outstanding through a cash tender offer and redemption, and the indenture governing the 2020 Notes was satisfied and discharged in accordance with its terms. In September 2017, the Company repurchased \$298.2 million in aggregate principal amount of the 2020 Notes pursuant to the tender offer. The total cash payment to repurchase the tendered 2020 Notes in the tender offer, including accrued and unpaid interest to, but excluding, the repurchase date, was \$309.3 million. Also in September 2017, in connection with the redemption of the remaining \$276.8 million in aggregate principal amount of 2020 Notes, the Company irrevocably deposited \$287.4 million with Wilmington Trust, as trustee, as trust funds solely for the benefit of the holders of such 2020 Notes. The redemption price for the 2020 Notes was 101.719% of the principal amount so redeemed, plus accrued and unpaid interest to, but excluding, the redemption date of October 5, 2017.

In connection with the satisfaction and discharge of the indenture governing the 2020 Notes, all of the obligations of the Company (other than certain customary provisions of the indenture that expressly survive pursuant to the terms of the indenture) were discharged in September 2017.

As a result of the repurchase of the 2020 Notes in the tender offer and the redemption of the remaining 2020 Notes, the Company recognized a \$10.2 million loss on extinguishment of debt during the second quarter of fiscal year 2018, which was comprised of \$10.6 million in cash payments (including tender offer consideration, redemption premium and related professional fees), net of \$0.4 million in non-cash gain (including unamortized premium, net of

unamortized debt issuance costs).

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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 12 months are classified as accrued liabilities and amounts expected to be incurred beyond 12 months are classified as other liabilities in the condensed consolidated financial statements. For mature products, the warranty cost estimates are based on historical experience with the particular product. For newer products that do not have a history of warranty costs, the Company bases its estimates on its experience with the technology involved and the types 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 nine months ended December 31, 2018 and 2017:

	Nine Months Ended	
	December 31,	December 31,
	2018	2017
	(In thousands)	
Balance, beginning of period	\$6,914	\$ 11,058
Change in liability for warranties issued in period	2,982	218
Settlements made (in cash or in kind) during the		
period	(2,889)	(3,931)
Balance, end of period	\$7,007	\$ 7,345

Note 8 — Commitments and Contingencies

In July 2016, the Company entered into two separate agreements with Boeing for the construction and purchase of two ViaSat-3 class satellites and the integration of Viasat's payload technologies into the satellites. Pursuant to these agreements, as amended, the aggregate purchase price for the two satellites is approximately \$390.1 million (subject to purchase price adjustments based on factors such as launch delay and early delivery), plus an additional amount for launch support services to be performed by Boeing. In addition, under one of these agreements, the Company has the option to order one additional ViaSat-3 class satellite, with respect to which the Company signed an agreement to proceed in January 2019 for the third ViaSat-3 class satellite. The first ViaSat-3 class satellite is expected to provide broadband services over the Americas, the second is expected to provide broadband services over the Europe, Middle East and Africa (EMEA) region, and the third is expected to provide broadband services over the Asia and Pacific (APAC) region, enabling the Company to deliver affordable connectivity worldwide.

From time to time, the Company is involved in a variety of claims, suits, investigations and proceedings arising in the ordinary course of business, including government investigations and claims, and other claims and proceedings with respect to intellectual property, breach of contract, labor and employment, tax and other matters. Such matters could result in fines; penalties, compensatory, treble or other damages; or non-monetary relief. A violation of government contract laws and regulations could also result in the termination of its government contracts or debarment from bidding on future government contracts. 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 concluded for fiscal years 2016 through 2018. As of December 31, 2018, the DCAA had completed

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its incurred cost audit for fiscal year 2004 and approved the Company's incurred cost claims for fiscal years 2005 through 2015 without further audit. Although the Company has recorded contract revenues subsequent to fiscal year 2015 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 December 31, 2018 and March 31, 2018, the Company had \$4.9 million and \$1.6 million, respectively, 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 the status of the related contracts.

Note 9 — Income Taxes

The Company calculates its provision for income taxes at the end of each interim reporting period on the basis of an estimated annual effective tax rate adjusted for tax items that are discrete to each period.

For the three and nine months ended December 31, 2018, the Company recorded an income tax expense of \$3.2 million and an income tax benefit of \$35.7 million, respectively, resulting in a negative effective tax rate of 36% and an effective tax benefit rate of 32%, respectively. The effective tax rates for the periods differed from the U.S. statutory rate due primarily to the benefit of research and development tax credits, offset by an increase in valuation allowances on state net operating losses and state research and development tax credits.

For the three and nine months ended December 31, 2017, the Company recorded an income tax expense of \$2.2 million and an income tax benefit of \$18.5 million, respectively, resulting in a negative effective tax rate of 9% and an effective tax benefit rate of 27%, respectively. The effective tax rates for the periods differed from the U.S. statutory rate due primarily to the benefit of research and development tax credits, offset by additional income tax expense due to the revaluation of net deferred tax assets resulting from the lowering of the corporate federal income tax rate from 35% to 21% under H.R.1, informally known as the Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017 (the Tax Reform).

Future realization of existing deferred tax assets 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, which would cause a decrease to income in the period such determination is made.

For the three and nine months ended December 31, 2018, the Company's gross unrecognized tax benefits decreased by an insignificant amount and increased by \$5.1 million, respectively. In the next 12 months it is reasonably possible that the amount of unrecognized tax benefits will not change significantly.

Among other matters, the Tax Reform lowered the corporate federal income tax rate from 35% to 21%, effective January 1, 2018, and transitioned U.S. international taxation from a worldwide tax system to a modified territorial tax system.

The Securities and Exchange Commission issued rules under SAB 118 that allowed for a measurement period of up to one year after the enactment date of the Tax Reform to finalize the recording of the related enactment-date tax impacts. The Company finalized its accounting for the related enactment-date tax impacts during the three and nine months ended December 31, 2018 with no adjustments to the provisional estimate recorded at December 31, 2017. For the three and nine months ended December 31, 2018, the Company has accounted for the fiscal year 2019 impacts of the Tax Reform in its (provision for) benefit from income taxes in accordance with its interpretation of the Tax Reform and available guidance. However, additional Treasury regulations and other interpretive guidance are expected. The impact of any additional guidance will be recorded in the subsequent periods in which the additional guidance is released.

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Note 10 — Equity Method Investments and Related-Party Transactions

Eutelsat strategic partnering arrangement

In March 2017, the Company acquired a 49% interest in Euro Broadband Infrastructure Sàrl (Euro Infrastructure Co.) for \$139.5 million as part of the consummation of the Company's strategic partnering arrangement with Eutelsat S.A. (together with its affiliates, Eutelsat). The Company's investment in Euro Infrastructure Co. is accounted for under the equity method and the total investment, including basis difference allocated to tangible assets, identifiable intangible assets, deferred income taxes and goodwill, is classified as a single line item, as an investment in unconsolidated affiliate, on the Company's condensed consolidated balance sheets. Because the underlying net assets in Euro Infrastructure Co. and the related excess carrying value of investment over the proportionate share of net assets are denominated in Euros, foreign currency translation gains or losses impact the recorded value of the Company's investment. The Company recorded foreign currency translation losses, net of tax, of an insignificant amount and \$3.8 million for the three and nine months ended December 31, 2018, respectively, in accumulated other comprehensive income (loss). The Company recorded foreign currency translation gains, net of tax, of approximately \$3.2 million and \$ 10.9 million for the three and nine months ended December 31, 2017, respectively, in accumulated other comprehensive income (loss). The Company records its proportionate share of the results of Euro Infrastructure Co., and any related basis difference amortization expense, within equity in income (loss) of unconsolidated affiliate, net, one quarter in arrears. Accordingly, the Company included its share of the results of Euro Infrastructure Co. for the three and nine months ended September 30, 2018 in its condensed consolidated financial statements for the three and nine months ended December 31, 2018, respectively. The Company's investment in Euro Infrastructure Co. is presented at cost of investment plus its accumulated proportional share of income or loss, including amortization of the difference in the historical basis of the Company's contribution, less any distributions it has received.

The difference between the Company's carrying value of its investment in Euro Infrastructure Co. and its proportionate share of the net assets of Euro Infrastructure Co. as of December 31, 2018 and March 31, 2018 is summarized as follows:

	As of	As of
	December 31, 2018	March 31, 2018
	(In thousands)	
Carrying value of investment in Euro Infrastructure Co.	\$ 162,617	\$ 163,835
Less: proportionate share of net assets of Euro		
Infrastructure Co.	146,250	147,115
Excess carrying value of investment over		
proportionate share of net assets	\$ 16,367	\$ 16,720
The excess carrying value has been primarily		

assigned to:		
Goodwill	\$22,791	\$ 23,523
Identifiable intangible assets	11,225	12,839
Tangible assets	(19,255)	(21,342)
Deferred income taxes	1,606	1,700
	\$16,367	\$ 16,720

The identifiable intangible assets have useful lives of up to 11 years and a weighted average useful life of approximately ten years, and tangible assets have useful lives of up to 11 years and a weighted average useful life of approximately 11 years. Goodwill is not deductible for tax purposes.

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(UNAUDITED)

The Company's share of income on its investment in Euro Infrastructure Co. was income of \$1.4 million and \$2.7 million for the three and nine months ended December 31, 2018, respectively, and income of \$1.4 million and \$1.6 million for the three and nine months ended December 31, 2017, consisting of the Company's share of equity in Euro Infrastructure Co.'s income, including amortization of the difference in the historical basis of the Company's contribution.

Since acquiring its interest in Euro Infrastructure Co., the Company has recorded \$5.7 million in retained earnings of undistributed cumulative earnings in equity interests, net of tax, as of December 31, 2018.

Related-party transactions

Transactions with the equity method investee are considered related-party transactions. In addition, Richard Baldrige, the President and Chief Operating Officer and a Director of the Company, also serves on the board of directors of Ducommun Inc. The following tables set forth the material related-party transactions entered into between Euro Infrastructure Co. and its subsidiaries, or Ducommun Inc. (inventory procurement) on the one hand, and the Company and its subsidiaries, on the other hand, in the ordinary course of business for the time periods presented:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	(In thousands)			
Revenue – Euro Infrastructure Co.	\$1,620	\$ 1,945	\$4,798	\$ 7,574
Expense – Euro Infrastructure Co.	5,664	1,725	10,254	5,313
Cash received – Euro Infrastructure Co.	4,048	2,191	10,102	6,540
Cash paid – Euro Infrastructure Co.	6,585	1,407	10,677	5,416
Cash paid – Ducommun Inc.	8,209	*	15,188	*

	As of	As of
	December 31, 2018	March 31, 2018
	(In thousands)	
Accounts receivable – Euro Infrastructure Co.	\$ **	\$ 3,307
Collections in excess of revenues and deferred		
revenues – Euro Infrastructure Co.	7,438	3,246
Accounts payable – Ducommun Inc.	4,287	2,073

*There was no related-party activity for the period indicated.

** Amount was insignificant.

Note 11 — 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 satellite-based broadband and related services to consumers, enterprises, commercial airlines and mobile broadband customers. The Company's commercial networks segment develops and offers advanced satellite and wireless broadband platforms, ground networking equipment, radio frequency and advanced microwave solutions, Application-Specific Integrated Circuit chip design, satellite payload development and space-to-earth connectivity systems, some of which are ultimately used by the Company's satellite services segment. The Company's government systems segment provides global mobile broadband services to military and government users and develops and offers network-centric, internet protocol-based fixed and mobile secure communications products 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 and nine months ended December 31, 2018 and 2017 were as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)			
Revenues:				
Satellite services				
Product	\$—	\$ 233	\$—	\$ 664
Service	177,651	144,310	494,174	443,671
Total	177,651	144,543	494,174	444,335
Commercial networks				
Product	115,409	47,073	304,732	130,903
Service	11,568	8,463	31,831	26,150
Total	126,977	55,536	336,563	157,053
Government systems				
Product	186,456	128,651	495,697	392,291
Service	63,610	53,107	184,603	161,276
Total	250,066	181,758	680,300	553,567
Elimination of intersegment revenues	—	—	—	—
Total revenues	\$554,694	\$ 381,837	\$1,511,037	\$ 1,154,955
Operating profits (losses):				
Satellite services	\$(10,196)	\$ 1,681	\$(64,971)	\$ 33,140
Commercial networks	(31,219)	(53,505)	(117,424)	(179,007)
Government systems	49,909	29,675	119,727	