VIASAT INC
Form 10-Q
August 09, 2018

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 June 30, 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 incorporation or organization)	(I.R.S. Employer Identification No.)

6155 El Camino Real

Carlsbad, California 92009

(760) 476-2200

(Address of principal executive offices and telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 (Do not check if a smaller reporting company)	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 July 27, 2018 was 59,549,220.

VIASAT, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	As of June 30, 2018	As of March 31, 2018
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$54,789	$71,446
Accounts receivable, net	236,085	267,665
Inventories	220,018	196,307
Prepaid expenses and other current assets	102,977	77,135
Total current assets	613,869	612,553
Satellites, net	1,265,021	1,239,987
Property and equipment, net	772,207	722,488
Other acquired intangible assets, net	28,558	31,862
Goodwill	122,455	121,085
Other assets	742,158	686,134
Total assets	$3,544,268	$3,414,109
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$149,548	$157,481
Accrued liabilities	252,312	263,676
Current portion of long-term debt	45,300	45,300
Total current liabilities	447,160	466,457
Senior notes	691,192	690,886
Other long-term debt	381,709	287,519
Other liabilities	132,260	121,240
Total liabilities	1,652,321	1,566,102
Commitments and contingencies (Note 8)		
Equity:		
Viasat, Inc. stockholders’ equity		
Common stock	6	6
Paid-in capital	1,589,167	1,535,635
Retained earnings	277,831	285,960
Accumulated other comprehensive income	15,442	15,565
Total Viasat, Inc. stockholders’ equity	1,882,446	1,837,166

Noncontrolling interest in subsidiaries	9,501	10,841
Total equity	1,891,947	1,848,007
Total liabilities and equity	$3,544,268	$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	
	June 30, 2018	June 30, 2017
	(In thousands, except per share data)	
Revenues:		
Product revenues	$218,129	$166,118
Service revenues	220,740	213,926
Total revenues	438,869	380,044
Operating expenses:		
Cost of product revenues	173,448	122,645
Cost of service revenues	171,432	137,851
Selling, general and administrative	112,642	89,173
Independent research and development	33,373	45,065
Amortization of acquired intangible assets	2,453	3,260
Loss from operations	(54,479)	(17,950)
Other income (expense):		
Interest income	36	93
Interest expense	(11,324)	(56)
Loss before income taxes	(65,767)	(17,913)
Benefit from income taxes	29,205	9,180
Equity in income (loss) of unconsolidated affiliate, net	1,065	(513)
Net loss	(35,497)	(9,246)
Less: net loss attributable to noncontrolling interests, net of tax	(1,487)	(207)
Net loss attributable to Viasat, Inc.	$(34,010)	$(9,039)
Basic net loss per share attributable to Viasat, Inc. common stockholders	$(0.57)	$(0.16)
Diluted net loss per share attributable to Viasat, Inc. common stockholders	$(0.57)	$(0.16)
Shares used in computing basic net loss per share	59,208	57,842
Shares used in computing diluted net loss per share	59,208	57,842
Comprehensive income (loss):		
Net loss	$(35,497)	$(9,246)
Other comprehensive income (loss), net of tax:		
Unrealized (loss) gain on hedging, net of tax	(326)	92
Foreign currency translation adjustments, net of tax	203	3,525
Other comprehensive (loss) income, net of tax	(123)	3,617

Comprehensive loss	(35,620)	(5,629)
Less: comprehensive loss attributable to noncontrolling		
interests, net of tax	(1,487)	(207)
Comprehensive loss attributable to Viasat, Inc.	$(34,133)	$(5,422)

See accompanying notes to the condensed consolidated financial statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended	
	June 30, 2018	June 30, 2017
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(35,497)	$(9,246)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	63,793	50,828
Amortization of intangible assets	14,004	13,107
Deferred income taxes	(31,055)	(9,377)
Stock-based compensation expense	19,126	15,507
Loss on disposition of fixed assets	12,549	9,196
Other non-cash adjustments	1,907	2,793
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	24,125	46,500
Inventories	(22,245)	(15,193)
Other assets	(10,812)	(8,203)
Accounts payable	(386)	(11,223)
Accrued liabilities	12,226	5,348
Other liabilities	6,079	63,617
Net cash provided by operating activities	53,814	153,654
Cash flows from investing activities:		
Purchase of property, equipment and satellites	(146,633)	(109,820)
Cash paid for patents, licenses and other assets	(12,155)	(18,253)
Other investing activities	(2,070)	—
Net cash used in investing activities	(160,858)	(128,073)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	130,000	—
Payments of revolving credit facility borrowings	(15,000)	—
Payments of Ex-Im credit facility borrowings	(22,650)	—
Proceeds from issuance of common stock under equity plans	7,655	7,245
Purchase of common stock in treasury (immediately retired) related to tax withholdings for share-based awards	(5,969)	(1,931)
Other financing activities	(2,376)	(372)
Net cash provided by financing activities	91,660	4,942
Effect of exchange rate changes on cash	(1,273)	(65)
Net (decrease) increase in cash and cash equivalents	(16,657)	30,458
Cash and cash equivalents at beginning of period	71,446	130,098
Cash and cash equivalents at end of period	$54,789	$160,556
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	$7,637	$(5,503)

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(UNAUDITED)

	Viasat, Inc. Stockholders Common Stock						
	Number of Shares Issued	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Subsidiaries	Total
	(In thousands, except share data)						
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	7,100	—	271	—	—	—	271
Issuance of stock under Employee Stock Purchase Plan	132,180	—	7,384	—	—	—	7,384
Stock-based compensation	—	—	21,738	—	—	—	21,738
Shares and fully-vested RSUs issued in settlement of certain accrued employee compensation liabilities, net 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	44,533	—	(1,541)	—	—	—	(1,541)
Cumulative effect adjustment upon adoption of new revenue recognition guidance (ASU 2014-09)	—	—	—	25,881	—	—	25,881
Other noncontrolling interest activity	—	—	(2,021)	—	—	147	(1,874)
Net loss	—	—	—	(34,010)	—	(1,487)	(35,497)
Other comprehensive loss, net of tax	—	—	—	—	(123)	—	(123)
Balance at June 30, 2018	59,527,520	$ 6	$1,589,167	$277,831	$ 15,442	$ 9,501	$1,891,947

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 — Basis of Presentation

The accompanying condensed consolidated balance sheet at June 30, 2018, the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended June 30, 2018 and 2017, the condensed consolidated statements of cash flows for the three months ended June 30, 2018 and 2017 and the condensed consolidated statement of equity for the three months ended June 30, 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 subsidiaries, TrellisWare Technologies, Inc. (TrellisWare) and Euro Broadband Retail Sàrl (Euro Retail Co.). 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 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 March 31, 2018	Adjustments Due to ASC 606	As of April 1, 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	17,738	703,872
Accrued liabilities	263,676	5,916	269,592
Retained earnings	285,960	25,879	311,839

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 June 30, 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 June 30, 2018 and March 31, 2018, the Company had $1.6 million in contract-related reserves for its estimate of potential refunds to customers for potential cost adjustments on several multi-year U.S. government cost reimbursable contracts (see Note 8).

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 June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $1.6 billion, of which the Company expects to recognize approximately 50% 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.

The following sets forth disaggregated reported revenue by segment and product and services for the three months ended June 30, 2018:

	Three Months Ended June 30, 2018			
	Satellite Services	Commercial Networks	Government Systems	Total Revenues
	(In thousands)			
Product revenues	$—	$ 85,133	$ 132,996	$ 218,129
Service revenues	153,561	9,933	57,246	220,740
Total revenues	$ 153,561	$ 95,066	$ 190,242	$ 438,869

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VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Revenues from the U.S. government as an individual customer comprised approximately 28% of total revenues for the three months ended June 30, 2018, mainly reported within the government systems segment. The Company's commercial customers, mainly reported within the commercial networks and satellite services segments, comprised approximately 72% of total revenues for the three months ended June 30, 2018.

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, time-and-materials and cost-reimbursement 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 months ended June 30, 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% of its total revenues in the three months ended June 30, 2018.

Revenues by geographic area for the three months ended June 30, 2018 were as follows:

	Three Months Ended June 30, 2018 (In thousands)

U.S. customers	$ 378,172
Non U.S. customers	60,697
Total revenues	$ 438,869

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

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 June 30, 2018 and April 1, 2018:

	As of June 30, 2018	As of April 1, 2018
	(In thousands)	
Unbilled accounts receivable	$80,852	$79,492
Collections in excess of revenues and deferred revenues	115,579	127,355
Deferred revenues, long-term portion	81,573	77,831

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

In the first quarter of fiscal year 2019, the Company recognized revenue of $50.6 million 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 $44.2 million and $5.6 million as of June 30, 2018, respectively. Of the Company's total deferred customer contract acquisition costs and costs to fulfill contracts, $17.6 million was included in prepaid expenses and other current assets and $32.2 million was included in other assets on the Company's condensed consolidated balance sheet as of June 30, 2018. For the three months ended June 30, 2018, the Company amortized $4.4 million in total deferred customer contract acquisition costs and contract fulfillment costs.

VIASAT, INC.

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 months ended June 30, 2018 and as of June 30, 2018:

	Three Months Ended June 30, 2018		
	As Reported	Impact of ASC 606	Historical Accounting Method
	(In thousands, except per share data)		
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss):			
Product revenues	$218,129	$ 579	$ 218,708
Service revenues	220,740	(1,066)	219,674
Total revenues	438,869	(487)	438,382
Cost of product revenues	173,448	249	173,697
Cost of service revenues	171,432	(121)	171,311
Selling, general and administrative	112,642	2,338	114,980
Independent research and development	33,373	2,745	36,118
Loss from operations	(54,479)	(5,698)	(60,177)
Interest expense	(11,324)	992	(10,332)
Loss before income taxes	(65,767)	(4,706	