

VIASAT INC
Form 10-K
May 27, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark One)

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

For the fiscal year ended March 28, 2008

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 (0-21767)

VIASAT, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

33-0174996

(I.R.S. Employer Identification No.)

**6155 El Camino Real, Carlsbad
California 92009
(760) 476-2200**

(Address, including zip code, and telephone number, including area code, of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.0001 per share

(Title of Each Class)

The NASDAQ Stock Market LLC

(Name of Each Exchange on which Registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the registrant, as of September 28, 2007 was approximately \$761,428,765 (based on the closing price on that date for shares of the registrant's common stock as reported by the Nasdaq Global Select Market). Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock, \$.0001 par value, as of May 20, 2008 was 30,487,416.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K where indicated. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended March 28, 2008.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. We use words such as anticipate, believe, continue, could, estimate, expect, goal, intend, may, plan, project, seek, should, target, will, would, similar expressions to identify forward-looking statements. In addition, statements that refer to projections of earnings, revenue, costs or other financial items; anticipated growth and trends in our business or key markets; future growth and revenues from our products; future economic conditions and performance; anticipated performance of products or services; plans, objectives and strategies for future operations; and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified under the heading Risk Factors in Item 1A, elsewhere in this report and our other filings with the Securities and Exchange Commission (SEC). Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

ITEM 1. BUSINESS

Corporate Information

We were incorporated in California in 1986 under the name ViaSat, Inc., and subsequently reincorporated in Delaware in 1996. The mailing address of our worldwide headquarters is 6155 El Camino Real, Carlsbad, California 92009, and our telephone number at that location is (760) 476-2200. Our website address is www.viasat.com. The information on our website does not constitute part of this report.

Company Overview

We are a leading producer of innovative satellite and other wireless communications and networking systems to government and commercial customers. Our ability to apply technologies between government and commercial customers combined with our diversification of technologies, products and customers, provides us with a strong foundation to sustain and enhance our leadership in advanced wireless communications and networking technologies. Generally, our sales consist of:

Project contracts to study, research, develop, test, support, and manufacture customized communication systems or products. Research and development costs for these customized projects and products are often customer funded. Once completed, many of our customized communications products are later marketed and sold to other customers as standard off-the-shelf products;

Selling, deploying and supporting our standard off-the-shelf products, which are generally developed through a combination of customer and discretionary internal research and development funding; or

Selling managed network satellite services to enterprise and mobile broadband customers.

Our customers include a variety of government and commercial entities. Our individual contracts may range in value from thousands of dollars to tens of millions of dollars.

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Industry Background

We principally operate in three segments – government systems, commercial networks and satellite services. Our government systems business is focused on network-centric government communications, where we develop and produce systems and specialized equipment for government customers for tactical data links, unmanned aerial vehicles, secure networking, signal processing and generation, and satellite communications applications. Within our commercial networks segment, we develop and produce systems and products for consumer, enterprise and mobile (aviation and maritime) broadband customers. Our satellite services segment provides managed network satellite services to enterprise and mobile broadband customers. Common to our market segments is the development of communications solutions which focus on Internet Protocol (IP) based communications. Financial information regarding our reporting segments and the geographic areas in which we operate is included in the consolidated financial statements and notes thereto, including Note 13 - Segment Information.

Government Systems

Our government systems products and solutions have grown significantly over the past five years and we believe three factors contribute to our success in this area:

The critical role of collection and dissemination of real-time information in executing high-speed, high-precision, highly mobile warfare over dispersed geographic areas, which has two important aspects. The first is reflected in the U.S. Department of Defense (DoD) transition to network-centric warfare, which emphasizes the importance of real time data networks of all types via multiple transmission media. The second is the growing importance of satellite-based communications, in particular, as the most reliable method of connecting rapidly moving forces who may simply out-run the range of terrestrial radio links.

The growing importance of IP networks in the DoD compared to older circuit-based systems – especially in light of the DoD's increased emphasis on network-centric warfare. We believe IP networks will drive a fundamental restructuring of DoD's secure information networks, which will take several years to complete.

We believe that over the next decade or so many of the previous generation of defense communications satellite networks will expire or become obsolete. New programs are underway or in planning to define, develop, procure and deploy systems to replace them. While we have been successful in capturing defense satellite ground system business in the past, we believe these new programs present more opportunities for bidding on new contracts than we have seen historically.

We believe these fundamentals will continue to offer growth opportunities for each of our government product areas over the next several years.

Commercial Networks

The essential advantage of satellite communications is that it allows a network provider to rapidly deploy new communications services to large numbers of people anywhere within the footprint of the satellite. Consequently, satellites can often be used to deploy communication services in developed and developing markets in a shorter period of time and in a more cost-efficient manner than building ground-based infrastructure. Moreover, in some areas, satellite solutions are less expensive than terrestrial wired and wireless alternatives. As satellite communications equipment becomes less expensive and new capabilities emerge in satellite communications technology, we believe the market for satellite communications offers growth opportunities.

The commercial satellite communications industry is expected to be driven by the following major factors:

(1) world-wide demand for communications services in general, with continued high growth in internet traffic in particular, (2) the improving cost-effectiveness of satellite communications for many uses, (3) recent technological advancements which broaden applications for and increase the capacity and efficiency of satellite based networks, and (4) global deregulation and privatization of government-owned telecommunications carriers.

Satellite Services

Our satellite services segment encompasses three primary areas: managed broadband services, mobile broadband services and, in the future, wholesale bandwidth services. For everyday enterprise networking or backup protection for primary networks, our managed broadband service provides a combination of terrestrial and satellite connections

through an around-the-clock call center and network management operation to ensure customer network availability and reliable digital satellite communications. Our mobile broadband service includes network management services for our customers who utilize our Arclight-based mobile communication systems, also through our network management center. In 2008, we began construction of a high-speed Ka-band satellite in order to provide wholesale broadband services over North America, which we anticipate will become available beginning in 2011.

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The ViaSat Solution

We believe our ability to design and deliver end-to-end cost-effective satellite, wireless and secure networking solutions enables us to provide our government and commercial customers, including consumer, enterprise and mobile customers, with a superior solution.

Government Systems

Our government systems communication products help our customers collect, process, protect, and disseminate information in all its digital forms to make better decisions faster. Our network-centric satellite and wireless communication products are used by tactical armed forces, first-responders, and remote government employees to increase the effectiveness, ease-of-use, and security of communication systems. We believe our long standing history of developing complex secure wireless and satellite networking communications technologies for both government and commercial customers provides us with opportunities for growth as the U.S. military looks to upgrade its secure wireless and satellite technology with a mix of customized and commercial technologies.

Commercial Networks and Satellite Services

We provide a variety of satellite communications network solutions for multiple sectors of the commercial market. Our commercial networks segment principally provides networking hardware and software to satellite or communications service providers. Our satellite services segment mainly provides managed network services, often to these same customers, creating an integrated solution.

Broadband Internet Applications. In recent years, there has been an increase in the use of satellites to carry broadband Internet traffic. This growth has been centered on connecting consumers and businesses with the Internet. Satellite capacity is often used where fiber-optic cable is prohibitively expensive or rare, such as suburban and rural areas or developing countries. More recently, satellite operators have invested in and launched next generation spot-beam satellites specifically designed for low-cost broadband access. However, we do not believe these satellites are equipped to deliver acceptable levels of service. In January 2008, we announced our plans to develop and launch ViaSat-1, a high-capacity, high-speed Ka-band spot-beam satellite planned for launch in early 2011. At the time of launch, ViaSat-1 is expected to be the highest capacity, most cost efficient satellite in the world. With the market demonstrating high demand for satellite broadband services, ViaSat-1 is designed to significantly expand the quality, capability and availability of high-speed broadband satellite services for U.S. consumers and enterprises. ViaSat plans to offer wholesale network services on the ViaSat-1 satellite to national and regional distribution partners (in most cases retail service providers or telephone companies). We expect satellite communications to continue to offer a cost-effective augmentation capability for Internet Service Providers (ISPs) and service providers offering broadband internet access, particularly in markets where ground-based broadband networks are unlikely to be either cost-effective or abundant. Additionally, satellites provide an alternative for ISPs, which are dealing with congestion associated with the distribution of increasing amounts of high-capacity multimedia content on the Internet.

Data Networks. Satellite networks are also well suited for data networks which focus on (1) rapidly deploying new services across large geographic areas, (2) reaching multiple user locations separated by long distances, (3) filling in gaps or providing support for data points of congestion, or bottlenecks in ground-based communications networks, and (4) providing communications capabilities in remote locations and in developing countries where ground-based infrastructure has not yet been developed. In addition, satellite networks are used as a substitute for, or supplement to, ground-based communications services such as frame relay, digital subscriber lines, fiber optic cables, and Integrated Services Digital Networks (ISDN). We believe satellite data network products and services will present us with growth opportunities as commercial data networks using satellites are applied in developed and developing markets throughout the world.

We believe our ability to design and deliver end-to-end cost-effective satellite networking solutions, including the provisioning of high-capacity satellites, the ground network including the RF gateways and network infrastructure, the end-user terminals and equipment, and network management and services enables us to provide our consumer,

enterprise and mobile satellite, wireless and networking customers with a superior solution.

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The ViaSat Strategy

Our objective is to leverage our advanced technology and capabilities to (1) increase our role as the government transitions to IP-based, highly-secure, network-centric based warfare, (2) develop high-performance, feature rich, low-cost technology to grow the size of the consumer satellite broadband, commercial enterprise and networking markets, while also capturing a significant share of these growing markets, and (3) maintain a leadership position, while reducing costs and increasing profitability, in our legacy satellite and wireless communications markets. The principal elements of our strategy include:

A complementary mix of defense and commercial products, projects, and geographic markets. We aim for a diversified mix of products that are unified through common underlying technologies, customer applications, market relationships or other factors. We believe this complementary mix, combined with our ability to effectively apply technologies between government and commercial markets and across different geographic markets, provides us a strong foundation to sustain and enhance our leadership in advanced communications and networking technologies.

Augment customer funded research and development with discretionary research and development to enter or leverage new markets or technologies. We use the availability of customer funding or co-investments for product development as an important factor in choosing where to apply our own discretionary research and development resources.

Address increasingly larger markets. We have focused on addressing larger markets since our inception. The size of customer-funded opportunities we can credibly address directly correlates to our annual revenue. By increasing the size of target markets we anticipate increasing our total revenues, and as a result we anticipate we will be more successful in capturing customer-funded research and development opportunities for increasingly larger projects.

Steadily evolve into adjacent technologies and markets. We anticipate continued growth via evolutionary steps into adjacent technologies and markets. We seek to grow the market segments we address by selling existing, or customized, versions of technologies we developed for one customer base to a different market, for instance, to different segments of the government market, or between government and commercial markets. In addition, we seek to expand the breadth of technologies and products we offer by selling new, but related, technologies and products to existing customers.

Careful targeting of new market opportunities. We consider several factors in selecting new market opportunities, including (1) whether there are meaningful entry barriers for new competitors (for example, specialized technologies or relationships), (2) the new market is the right size and consistent with our growth objectives (market niches large enough to provide us significant revenues), and (3) the customers in the market value our technology competence and focus, which makes us an attractive partner.

Sustain a large (relative to our size) and highly proficient engineering staff to capture and perform our target projects. Since customer-funded research and development is an important aspect of our business, we believe it is important to sustain a large, highly competent, engineering team. We believe we offer very competitive compensation, benefits and work environment to attract and maintain employees. Perhaps even more important, we tend to seek and attract engineers who embrace our business approach and the associated technology challenges it offers. So far, this has enabled us to offer our customers high product performance, reduced technological risks, and competitive pricing.

High quality, cost effective outsourced manufacturing supply chain. Since inception, we have chosen to strategically outsource much of our manufacturing operations. We believe this reduces operating costs, reduces capital investments, facilitates rapid adoption of the most modern and effective manufacturing

technologies, provides flexible response to fluctuating product demand, and focuses our resources on designing for producibility. We manage out-sourced manufacturing through our AS9100 and ISO-9001 Quality Management System (QMS) processes and have established enduring relationships with key suppliers.

Strategic alliances. In the past, we have engaged in strategic relationships and have acquired companies that have innovative technologies and products, highly skilled personnel, market presence, and customer relationships and distribution channels that complement our strategy. On an ongoing basis, we may evaluate acquisitions of, or investments in, complementary companies, businesses, products or technologies to supplement our internal growth. In addition, we have regularly entered into teaming arrangements with other government contractors to more effectively capture complex government programs, and we expect to continue to actively seek strategic relationships and ventures with companies whose financial, marketing, operational or technological resources can accelerate the introduction of new technologies and the penetration of new markets.

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These key elements of our strategy have remained relatively unchanged for the past seven years; a period where we have experienced significant profitable growth in our government and commercial businesses. We believe these key strategy elements are enduring and will continue to enable us to grow in the future.

Markets and Product Portfolio

Our products and service offerings address three main markets: government systems, commercial networks and satellite broadband services.

Segment	Market Area	Description of Products/Functionality
Government Systems	Data Links	Line of sight, jam-resistant, secure networking for voice and data; video links transmit simultaneous IP data, compressed video, metadata, and audio from multiple sensors.
	Tactical Networking	Tactical radios that deliver an IP-based common operating picture - even over severely degraded radio channels.
	Information Assurance	Type 1 high assurance encryption products and capabilities for high assurance encryption.
	Government Satellite Communication Systems	Satcom for communications on-the-move, on-the-pause, fixed, and transportable applications, including mobile satcom systems, high-speed modems, UHF satcom terminals, portable manpack terminals, and antenna systems.
Commercial Networks	Consumer Broadband	Cost effective satellite broadband system using our SurfBeam® system.
	Mobile Broadband	Products centered around our ArcLight® system - the only FCC-licensed Ku-band mobile satellite system. Our spread spectrum waveform provides higher speeds (similar to high-speed cable and DSL) at a lower cost than competing services while on-the-move in aircraft, trains, or seagoing vessels using small, lightweight antennas and terminals.
	Enterprise VSAT Networks	Satellite communication VSAT systems connect a business with web-centric applications, including IP data, internet access, virtual private networks, retail point of sale, video, voice over IP and distance learning applications.
	Antenna Systems	Antenna and ground station design, fabrication, test, and installation, plus antenna maintenance services.
	Technology	All aspects of satellite communication system architecture and technology including the analysis, design, and specification of satellites and ground systems; ASIC and MMIC design and production; wide area network compression for enterprise networks.
Satellite Services	Wholesale Broadband	Wholesale broadband service over a Ka-band spot beam satellite, at speeds and choices similar to or in excess of cable and DSL by putting more, cheaper bits in space - service available in 2011.

Managed Broadband	Full-service broadband wireless networking to customer's locations with transparent support for today's new communication applications, integration services, including supplementing with DSL, where needed.
Mobile Satellite	Communications on-the-move services to airborne and maritime customers covering all of North America, the North Atlantic, and Europe.

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Global Service and Support

In addition to our product offerings, we provide a broad range of repair, upgrade and technical support service offerings for our products and systems. Through our sales teams and support services, we are constantly apprised of customers' needs and their use of products and services. Accordingly, a superior level of continuing customer service and support is integral to our objective of developing and maintaining long-term relationships with our customers. The majority of our service and support activities are provided by our field engineering team, systems engineers, and sales and administrative support personnel, both on-site at the customer's location and by telephone.

Customers

Although we initially focused primarily on developing satellite communication and simulation equipment for the U.S. government, we successfully diversified into other related satellite, wireless and networking communications markets serving both government and commercial customers. Our customers include the DoD, civil agencies, defense contractors, allied foreign governments, satellite network integrators, large communications service providers, and corporations requiring complex communications and networking solutions. Government contracts are either direct with U.S. or foreign governments, or indirect through domestic or international prime contractors. For our commercial contracts, we also act as both a prime contractor and subcontractor for the sale of equipment and services. Our significant customers include the DoD, Northrop Grumman, Harris, Raytheon, WildBlue, Boeing, Teleset and ITT. Revenues from the U.S. government comprised approximately 30%, 31% and 34% of total revenues for fiscal years 2008, 2007 and 2006, respectively. In addition, one commercial customer comprised approximately 9%, 16% and 10% of total revenues for fiscal years 2008, 2007 and 2006, respectively. Over the past few years, we have significantly expanded our customer base both domestically and internationally.

Government Contracts

Substantial portions of our revenues are generated from contracts and subcontracts with the DoD and other federal government agencies. Many of our contracts are competitively bid and awarded on the basis of technical merit, personnel qualifications, experience and price. We also receive some contract awards involving special technical capabilities on a negotiated, noncompetitive basis due to our unique technical capabilities in special areas. The Federal Acquisition Streamlining Act of 1994 has encouraged the use of commercial type pricing on dual use products. Our future revenues and income could be materially affected by changes in procurement policies, a reduction in expenditures for the products and services we provide, and other risks generally associated with federal government contracts.

We provide products under federal government contracts that usually require performance over a period of several months to five years. Long-term contracts may be conditioned upon continued availability of congressional appropriations. Variances between anticipated budget and congressional appropriations may result in a delay, reduction or termination of these contracts. Contractors often experience revenue uncertainties with respect to available contract funding during the first quarter of the U.S. government's fiscal year beginning October 1, until differences between budget requests and appropriations are resolved.

Our federal government contracts are performed under cost-reimbursement contracts, time-and-materials contracts and fixed-price contracts. Cost-reimbursement contracts provide for reimbursement of costs and for payment of a fee. The fee may be either fixed by the contract or variable, based upon cost control, quality, delivery and the customer's subjective evaluation of the work. Under time-and-materials contracts, we receive a fixed amount by labor category for services performed and are reimbursed for the cost of materials purchased to perform the contract. Under a fixed-price contract, we agree to perform specific work for a fixed price and, accordingly, realize the benefit or detriment to the extent that the actual cost of performing the work differs from the contract price. Revenues generated from contracts with the federal government or our prime contractors for fiscal year 2008 were approximately 25% from cost-reimbursement contracts, approximately 1% from time-and-materials contracts and approximately 74% from fixed-price contracts of total government revenues.

Our allowable federal government contract costs and fees are subject to audit by the Defense Contract Audit Agency. Audits may result in non-reimbursement of some contract costs and fees. While the government reserves the right to conduct further audits, audits conducted for periods through fiscal year 2002 have resulted in no material cost recovery disallowances for us.

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Our federal government contracts may be terminated, in whole or in part, at the convenience of the U.S. government. If a termination for convenience occurs, the U.S. government generally is obligated to pay the cost incurred by us under the contract plus a pro rata fee based upon the work completed. Contracts with prime contractors may have negotiated termination schedules that apply. When we participate as a subcontractor, we are at risk if the prime contractor does not perform its contract. Similarly, when we act as a prime contractor employing subcontractors, we are at risk if a subcontractor does not perform its subcontract.

Some of our federal government contracts contain options that are exercisable at the discretion of the customer. An option may extend the period of performance for one or more years for additional consideration on terms and conditions similar to those contained in the original contract. An option may also increase the level of effort and assign new tasks to us. In our experience, options are exercised more often than not.

Our eligibility to perform under our federal government contracts requires us to maintain adequate security measures. We have implemented security procedures that we believe adequately satisfy the requirements of our federal government contracts.

Research and Development

The industries in which we compete are subject to rapid technological developments, evolving standards, changes in customer requirements, and continuing developments in the communications, networking and signal processing environment. Our continuing ability to adapt to these changes, and to develop new and enhanced products, is a significant factor in maintaining or improving our competitive position and our prospects for growth. Therefore, we continue to make significant investments in product development.

We conduct the majority of our research and product development activities in-house and have a research and development and engineering staff, which includes over 1,050 engineers. Our product development activities focus on products to support all of our segments: government systems, commercial networks and satellite services, that we consider viable revenue opportunities. A significant portion of our research and development efforts have generally been conducted in direct response to the specific requirements of a customer's order and, accordingly, these amounts are included in the cost of sales when incurred and the related funding is included in revenues at that time.

The portion of our contract revenues which includes research and development funded by government and commercial customers was approximately \$112.2 million, \$122.9 million and \$109.5 million during fiscal years 2008, 2007 and 2006, respectively. In addition, we incurred \$32.3 million in fiscal year 2008, \$21.6 million in fiscal year 2007, and \$15.8 million in fiscal year 2006 on independent research and development, which is not directly funded by a third party. Funded research and development contains a profit component and is therefore not directly comparable to independent research and development. As a government contractor, we also are able to recover a portion of our independent research and development expenses, consisting primarily of salaries and other personnel-related expenses, supplies and prototype materials related to research and development programs.

Intellectual Property

We seek to establish and maintain our proprietary rights in our technology and products through a combination of patents, copyrights, trademarks, trade secret laws and contractual rights. We also seek to maintain our trade secrets and confidential information by nondisclosure policies, through the use of appropriate confidentiality agreements, and through other security measures. We have obtained a number of patents and trademarks in the United States and in other countries. There can be no assurance, however, that these rights can be successfully enforced against competitive products in every jurisdiction. Although we believe the protection afforded by our patents, copyrights, trademarks and trade secrets has value, the rapidly changing technology in the networking, satellite and wireless communications industries, and uncertainties in the legal process, make our future success dependent primarily on the innovative skills, technological expertise, and management abilities of our employees rather than on the protection afforded by patent, copyright, trademark, and trade secret laws. Patent, copyright, trademark and trade secret protections are important but must be supported by other factors such as the expanding knowledge, ability and experience of our personnel, new product introductions and frequent product enhancements.

Certain of our products include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe, based upon past experience and standard industry practice, such licenses generally could be obtained on commercially reasonable

terms. Nonetheless, there can be no assurance the necessary licenses would be available on acceptable terms, if at all. Our inability to obtain these licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results and financial condition.

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The industry in which we compete is characterized by rapidly changing technology, a large number of patents, and frequent claims and related litigation regarding patent and other intellectual property rights. We cannot assure you that our patents and other proprietary rights will not be challenged, invalidated or circumvented, that others will not assert intellectual property rights to technologies that are relevant to us, or that our rights will give us a competitive advantage. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as the laws of the United States.

The following marks, among others, are trademarks or service marks of ViaSat or one of our subsidiaries: AcceleNet, AltaSec, ArcLight, LinkStar, LinkStar^{S2}, LINKWAY, LinkWay^{S2}, PSIAM, Skylinx, StarWire, SURFBEAM, ViaSat and V Chain. COMSAT Laboratories is a licensed trade name of ours. The following third party trademarks or service marks referenced in the text of this report are owned by the entities indicated: DOCSIS (Cable Television Laboratories), HAIPE (National Security Agency).

Sales and Marketing

We have a sales presence in various domestic and foreign locations, and we sell our products and services both directly and indirectly through channel partners.

Government Sales Organization. Our government sales organization consist of direct sales personnel who sell our standard products, business development personnel who work with engineers, program managers, marketing managers and contract managers to identify business opportunities, develop customer relationships, develop solutions for the customer's needs, prepare proposals and negotiate contractual arrangements. The period of time from initial contact through the point of product sale and delivery can take over three years for more complex product developments or for product development including prototypes and demonstrations. Products already in production can usually be delivered to a customer between 90 to 180 days.

Commercial Networks Sales Organization. Our commercial networks sales organization consists of regional sales directors, regional sales managers and sales engineers, who act as the primary interface to establish account relationships and determine technical requirements for customer networks. In addition to our sales force, we maintain a highly trained service staff to provide technical product and service support to our customers. The sales cycle in the commercial network market is lengthy and it is not unusual for a sale to take up to 18 months from the initial contact through the execution of the agreement. The sales process often includes several network design iterations, network demonstrations and pilot networks consisting of a few sites.

Strategic Partners. To augment our direct sales efforts, we seek to develop key strategic relationships to market and sell our network products and services. We direct our sales and marketing efforts to our strategic partners, primarily through our senior management relationships. In some cases a strategic ally may be the prime contractor for a system or network installation and will subcontract a portion of the project to us. In other cases, the strategic ally may recommend us as the prime contractor for the design and integration of the network. We seek strategic relationships and partners based on many factors, including financial resources, technical capability, geographic location and market presence.

Our marketing team works closely with our sales, research and product development organizations and our customers to increase the awareness of the ViaSat brand through a mix of positive program performance and our customers' recommendation as well as public relations, advertising, trade show participation and conference speaking engagements by providing communications that keep the market current on our products and features. Our marketing also identifies and sizes new target markets for our products, creates awareness of our company and products and generates contacts and leads within these targeted markets.

Backlog

As reflected in the table below, funded and firm (funded plus unfunded) backlog decreased during fiscal year 2008, primarily due to some expected large contract awards that shifted from fiscal year 2008 to fiscal year 2009. New contract awards in fiscal year 2008 were a record for the company.

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	March 28, 2008	March 30, 2007
	(In millions)	
Firm backlog		
Government Systems segment	\$ 206.8	\$ 220.0
Commercial Networks segment	154.5	152.8
Satellite Services segment	13.1	15.9
Total	\$ 374.4	\$ 388.7
Funded backlog		
Government Systems segment	\$ 186.1	\$ 193.2
Commercial Networks segment	154.5	152.8
Satellite Services segment	13.1	15.9
Total	\$ 353.7	\$ 361.9
Contract options	\$ 39.3	\$ 39.3

The firm backlog does not include contract options. Of the \$374.4 million in firm backlog, approximately \$264.6 million is expected to be delivered in fiscal year 2009, and the balance is expected to be delivered in fiscal year 2010 and thereafter. We include in our backlog only those orders for which we have accepted purchase orders. Over the last year, as we have completed many larger scale development programs and the resulting products have been placed into market, we have seen a greater percentage of awards from book and ship-type orders, resulting in a backlog growth rate that is relatively lower than the previous three fiscal years.

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

The backlog amounts presented are comprised of funded and unfunded components. Funded backlog represents the sum of contract amounts for which funds have been specifically obligated by customers to contracts.

Unfunded backlog represents future amounts that customers may obligate over the specified contract performance periods. Our customers allocate funds for expenditures on long-term contracts on a periodic basis. Our ability to realize revenues from contracts in backlog is dependent upon adequate funding for such contracts. Although funding of our contracts is not within our control, our experience indicates that actual contract fundings have ultimately been approximately equal to the aggregate amounts of the contracts.

Competition

The satellite and wireless communications and secure networking markets in which we compete are characterized by rapid change, converging technologies and a migration to solutions that offer superior advantages. These market factors represent both an opportunity and a competitive threat to us.

Within our government systems segment, we generally compete with defense electronics product, subsystem or system manufacturers such as Rockwell Collins, L-3 Communications, Harris, General Dynamics, BAE Systems or similar companies. We may also occasionally compete directly with the largest defense prime contractors, including Boeing, Lockheed Martin, Northrop Grumman or Raytheon Systems. The aforementioned companies, while competitors, are also customers or partners with us on teams. Accordingly, maintaining an open and cooperative relationship is important. Almost of all of the companies we compete with in the government systems segment are

substantially larger than us and may have more extensive engineering, manufacturing and marketing capabilities than we do. As a result, these competitors may be able to adapt more quickly to changing technology or market conditions or may be able to devote greater resources to the development, promotion and sale of their products. Furthermore, competitors who have more financial resources may be better able to provide a broader range of financing alternatives to their customers in connection with sales of their products.

In our commercial networks and satellite services segments, we compete with Hughes Communications, Gilat, and iDirect Technologies, each of which offers a broad range of satellite communications products and services. Our principal competitors in the supply of antenna systems are Andrew Corporation, General Dynamics (VertexRSI) and L-3 Titan. Our satellite services segment also competes with terrestrial communications providers, mostly telephone companies.

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The overall number of our competitors may increase, and the identity and composition of competitors may change. As we continue to expand our sales globally, we may see new competition in different geographic regions. Many of our competitors have significant competitive advantages, including strong customer relationships, more experience with regulatory compliance, greater financial and management resources and control over central communications networks.

To compete with these providers, we emphasize:

the innovative and flexible features integrated into our products;

the increased bandwidth efficiency offered by our networks and products;

our network management experience;

the cost-effectiveness of our products and services;

our end-to-end network implementation capabilities;

the distinct advantages of satellite data networks;

technical advantages and advanced features of our antenna systems as compared to our competitors' offerings;

the overall cost of our antenna systems and satellite networks, which can include equipment, installation and bandwidth costs, as compared to products offered by ground-based and other satellite service providers; and

our proven designs and network integration services for complex, customized network needs.

While we believe we compete successfully in each of these factors, we expect to face intense competition in each of our markets.

Manufacturing

Our manufacturing objective is to produce high-quality products that conform to specifications at the lowest possible manufacturing cost. We primarily utilize a range of contract manufacturers, based on the volume of the production, to reduce the costs of products and to support rapid increases in delivery rates when needed. As part of our manufacturing process, we conduct extensive testing and quality control procedures for all products before they are delivered to customers.

Contract manufacturers produce products for many different customers and are able to pass on the benefits of large scale manufacturing to their customers. These manufacturers are able to achieve high quality products with lower levels of costs by (1) exercising their high-volume purchasing power, (2) employing advanced and efficient production equipment and systems on a full-time basis, and (3) using a highly skilled workforce. Our primary contract manufacturers include Benchmark, MTI, NJRC, Spectral Response, Secure Communications and IEC Electronics.

Our experienced management team facilitates an efficient contract manufacturing process through the development of strong relationships with a number of different domestic and off-shore contract manufacturers. By negotiating beneficial contract provisions and purchasing some of the equipment needed to manufacture our products, we retain the ability to move the production of our products from one contract manufacturing source to another if required. Our operations management has experience in the successful transition from in-house production to contract manufacturing. The degree to which we employ contract manufacturing depends on the maturity of the product. We intend to limit our internal manufacturing capacity to new product development support and customized products that need to be manufactured in strict accordance with a customer's specifications and delivery schedule. Therefore, our internal manufacturing capability for standard products has been, and is expected to continue to be, very limited, and we intend to rely on contract manufacturers for large-scale manufacturing.

We also rely on outside vendors to manufacture specific components and subassemblies used in the production of our products. Some components, subassemblies and services necessary for the manufacture of our products are

obtained from a sole supplier or a limited group of suppliers. In particular, Texas Instruments and Broadcom are sole source suppliers of certain digital signal processing chips, which are critical components we use in many of our products.

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Regulatory Environment

As a defense contractor, our contract costs are audited and reviewed by the Defense Contract Audit Agency. Audits and investigations are conducted from time to time to determine if our performance and administering of our U.S. government contracts in compliance with applicable contractual requirements and procurement regulations and other applicable federal statutes and regulations. Under current U.S. government procurement regulations, if indicted or deemed in violation of procurement or other federal civil laws, a contractor, such as us, could be subject to fines, penalties, repayments or other damages. U.S. government regulations also provide that certain findings against a contractor may lead to suspension or debarment from eligibility for awards of new U.S. government contracts.

Some of our products are incorporated into wireless communications systems that are subject to regulation domestically by the Federal Communications Commission (FCC) and internationally by other government agencies. Although the equipment operators and not us are often responsible for compliance with these regulations, regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards which define the current networking environment, could materially adversely affect our operations by restricting development efforts by our customers, making current products obsolete or increasing the opportunity for additional competition. Changes in, or our failure to manufacture products in compliance with, applicable regulations could materially harm our business. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies world wide to adopt new standards for these products, generally following extensive investigation and deliberation over competing technologies. The delays inherent in this government approval process have in the past caused and may in the future cause the cancellation, postponement or rescheduling of the installation of communication systems by our customers, which in turn may have a material adverse effect on the sale of our products to the customers.

We are also subject to a variety of local, state and federal government regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances used to manufacture our products. The failure to comply with current or future regulations could result in the imposition of substantial fines on us, suspension of production, alteration of our manufacturing processes or cessation of operations. To date, these regulations have not had a material effect on our business, as we have neither incurred significant costs to maintain compliance nor to remedy past noncompliance, and we do not expect such regulations to have a material effect on our business in the current fiscal year.

Due to the nature and sophistication of our communications products, we must comply with applicable State Department and other Federal agency regulations regarding the handling and export of certain of our products. This often requires extra or special handling of these products and could increase our costs. Failure to comply with these regulations could result in substantial harm to the company including fines, penalties and the forfeiture of future rights to sell or export these products.

In addition to the local, state and federal government regulations, we must comply with applicable laws and obtain the approval of the regulatory authorities of each foreign country in which we operate. The laws and regulatory requirements relating to satellite communications and other wireless communications systems vary from country to country. Some countries have substantially deregulated satellite communications and other wireless communications, while other countries maintain strict and often burdensome regulations. The procedure to obtain these regulatory approvals can be time-consuming and costly, and the terms of the approvals vary for different countries. In addition, in some countries there may be restrictions on the ability to interconnect satellite communications with ground-based communications systems.

Availability of Public Reports

Through a link on the Investor Relations section of our website at www.viasat.com, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge. They are also available free of charge on the SEC's website at www.sec.gov. In addition, any materials filed with the SEC may be read and copied by the public at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public

Reference Room by calling the SEC at 1-800-SEC-0330. The information on our website is not part of this report or any other report that we furnish to or file with the SEC.

Table of Contents**Employees**

As of March 28, 2008, we employed approximately 1,680 individuals worldwide. We consider the relationships with our employees to be positive. Competition for technical personnel in our industry is intense. We believe our future success depends in part on our continued ability to hire, assimilate and retain qualified personnel. To date, we believe we have been successful in recruiting qualified employees, but there is no assurance we will continue to be successful in the future.

Executive Officers

Set forth below is information concerning our executive officers and their ages as of March 28, 2008.

Name	Age	Position
Mark D. Dankberg	52	Chairman of the Board and Chief Executive Officer
Richard A. Baldrige	49	President and Chief Operating Officer
H. Stephen Estes	53	Vice President Human Resources
Kevin J. Harkenrider	52	Vice President Operations
Steven R. Hart	55	Vice President and Chief Technical Officer
Keven K. Lippert	35	Vice President General Counsel and Secretary
Mark J. Miller	48	Vice President and Chief Technical Officer
Brandon L. Nixon	44	Senior Vice President
Ronald G. Wangerin	41	Vice President and Chief Financial Officer

Mark D. Dankberg is a founder of ViaSat and has served as Chairman of the Board and Chief Executive Officer of ViaSat since its inception in May 1986. Mr. Dankberg also serves as a director of TrellisWare Technologies, Inc., a privately-held subsidiary of ViaSat that develops advanced signal processing technologies for communication applications. Mr. Dankberg is a director and member of the audit committee of REMEC, Inc., which is now in dissolution. In addition, Mr. Dankberg serves on the advisory board of Minnetronix, Inc., a privately-held medical device and design company. Prior to founding ViaSat, he was Assistant Vice President of M/A-COM Linkabit, a manufacturer of satellite telecommunications equipment, from 1979 to 1986, and Communications Engineer for Rockwell International Corporation from 1977 to 1979. Mr. Dankberg holds B.S.E.E. and M.E.E. degrees from Rice University.

Richard A. Baldrige joined ViaSat in April 1999 as Vice President and Chief Financial Officer. From September 2000 to August 2002, Mr. Baldrige served as Executive Vice President, Chief Operating Officer and Chief Financial Officer. He currently serves as President and Chief Operating Officer of ViaSat. Prior to joining ViaSat, Mr. Baldrige served as Vice President and General Manager of Raytheon Corporation's Training Systems Division from January 1998 to April 1999. From June 1994 to December 1997, Mr. Baldrige served as Chief Operating Officer, Chief Financial Officer and Vice President Finance and Administration for Hughes Information Systems and Hughes Training Inc., prior to their acquisition by Raytheon in 1997. Mr. Baldrige's other experience includes various senior financial management roles with General Dynamics Corporation. Mr. Baldrige holds a B.S. degree in Business Administration, with an emphasis in Information Systems, from New Mexico State University.

H. Stephen Estes first became part of the ViaSat team with the acquisition of several commercial divisions of Scientific-Atlanta in April 2000. Mr. Estes served as Vice President and General Manager of the Antenna Systems group from 2000 to 2003. From 2003 to 2005, he served as a co-founder of an entrepreneurial startup. In September 2005, Mr. Estes rejoined ViaSat as Vice President Human Resources. Mr. Estes began his career as an electrical design engineer, moving into various management positions in engineering, program management, sales and marketing, and general management for companies that included Scientific-Atlanta, Loral (now part of L-3), and AEL Cross Systems (now part of BAE). Mr. Estes holds a B.S. degree in Mathematics and an Electrical Engineering degree from Georgia Tech, along with an M.B.A. degree focused on finance and marketing.

Kevin J. Harkenrider joined ViaSat in October 2006 as Director Operations and since January 2007 has served as Vice President Operations. Prior to joining the company, Mr. Harkenrider served as Account Executive at Computer Sciences Corporation from 2002 through October 2006. From 1992 to 2001, Mr. Harkenrider held several positions at BAE Systems, Mission Solutions (formerly GDE Systems, Marconi Integrated Systems, and General Dynamics

Corporation, Electronics Division), including Vice President and Program Director, Vice President Operations and Vice President Material. Prior to 1992, Mr. Harkenrider served in several director and program manager positions at General Dynamics Corporation. Mr. Harkenrider holds a B.S. degree in Civil Engineering from Union College and an M.B.A. degree from the University of Pittsburgh.

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Steven R. Hart is a founder of ViaSat and has served as Vice President and Chief Technical Officer since March 1993. Mr. Hart served as Vice President – Engineering from March 1997 to January 2007 and as Engineering Manager since 1986. Prior to joining ViaSat, Mr. Hart was a Staff Engineer and Manager at M/A-COM Linkabit from 1982 to 1986. Mr. Hart holds a B.S. degree in Mathematics from the University of Nevada, Las Vegas and a M.A. degree in Mathematics from the University of California, San Diego.

Keven K. Lippert has served as Vice President – General Counsel and Secretary of ViaSat since April 2007 and as Associate General Counsel and Assistant Secretary from May 2000 to April 2007. Prior to joining ViaSat, Mr. Lippert was a corporate associate at the law firm of Latham & Watkins LLP. Mr. Lippert holds a J.D. degree from the University of Michigan and a B.S. degree in Business Administration from the University of California, Berkeley.

Mark J. Miller is a founder of ViaSat and has served as Vice President and Chief Technical Officer of ViaSat since 1993 and as Engineering Manager since 1986. Prior to joining ViaSat, Mr. Miller was a Staff Engineer at M/A-COM Linkabit from 1983 to 1986. Mr. Miller holds a B.S.E.E. degree from the University of California, San Diego and a M.S.E.E. degree from the University of California, Los Angeles.

Brandon L. Nixon became a Senior Vice President of ViaSat in March 2008. He joined the company in June 2006 following the acquisition of Enerdyne Technologies, Inc. (Enerdyne). From October 2002 to June 2006 he served as the Chief Executive Officer of Enerdyne. Earlier, after a recapitalization Mr. Nixon served as the Chief Executive Officer of Enerdyne’s parent company along with a sibling subsidiary, Boatracs LLC. Mr. Nixon served as the Chief Executive Officer of both companies until divesting of Boatracs, LLC in October 2004. Prior to joining Enerdyne, Mr. Nixon spent nearly two decades in a variety of executive, management and investor positions within the technology and communication industries, including Hewlett-Packard, Texas Instruments, Cirrus Logic and SAIC. Just prior to joining Enerdyne, Mr. Nixon was a General Partner with a private equity firm, Housatonic Partners, where he founded the firm’s communications practice. In his capacity as General Partner, he invested in, acquired or founded a number of telecommunications related companies. Mr. Nixon holds a B.S. degree in Computer Engineering from University of California, San Diego and an M.B.A. degree from the Stanford Graduate School of Business.

Ronald G. Wangerin joined ViaSat in August 2002 as Vice President and Chief Financial Officer. Prior to joining ViaSat, Mr. Wangerin served as Vice President, Chief Financial Officer, Treasurer, and Secretary at NexusData Inc., a privately-held wireless data collection company, from 2000 to 2002. From 1997 to 2000, Mr. Wangerin held several positions at Hughes Training, Inc., a subsidiary of Raytheon Company, including Vice President and Chief Financial Officer. Mr. Wangerin worked for Deloitte & Touche LLP from 1989 to 1997. Mr. Wangerin holds a B.S. degree in Accounting and a Masters of Accounting degree from the University of Southern California.

ITEM 1A. RISK FACTORS

You should consider each of the following factors as well as the other information in this Annual Report in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case the trading price of our common stock could decline. You should also refer to the other information set forth in this Annual Report, including our financial statements and the related notes.

Owning and Operating Satellites Involve Considerable Risks

In January 2008, we executed an agreement to purchase ViaSat-1, our first broadband satellite, and we may acquire one or more additional satellites in the future. We also plan to develop next generation SurfBeam ground infrastructure and terminals for use with such satellites. We currently plan to launch our ViaSat-1 satellite in early 2011 and introduce service later in 2011. If we are unable to have manufactured or successfully launch a satellite or implement our satellite service business in a timely manner, or at all,

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as a result of any of the following risks, we will be unable to realize the anticipated benefits from our satellite and associated services business, and our business, financial condition and results of operations could be materially adversely affected:

Cost and Schedule Risks. The cost of completing satellites and developing the associated next generation SurfBeam ground infrastructure may be more than anticipated and there may be delays in completing satellites and SurfBeam infrastructure within the expected timeframe. We may be required to spend in excess of our current forecast for the cns, although we believe that the disclosures herein are adequate to make the information presented not misleading. The operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

Our fiscal year ends on December 31 and our quarters are each comprised of 13 weeks. For convenience, throughout these financial statements, the 13 weeks comprising each quarterly period are denoted by the last day of the respective calendar quarter.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, intangible assets, and other long-lived assets, legal contingencies, guarantee obligations, indemnifications, and assumptions used in the calculation of income taxes, pension and postretirement medical benefits, among others. These estimates and assumptions are based on our best estimates and judgment.

We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. We believe these estimates and assumptions to be reasonable under the circumstances and adjust such estimates and assumptions when facts and circumstances dictate. Declines in the residential and commercial new construction markets and other consumer spending and volatile equity, foreign currency, and commodity markets have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Reclassifications

We have reclassified certain prior period expenses in the Consolidated Statement of Operations from Selling, General and Administration Expenses to Cost of Goods Sold to conform to the current period's presentation in the Consolidated Statement of Operations. These costs include global sourcing and supplier development, product liability, workers compensation and property leases.

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Service Experts		93.8		4.8		98.6
Refrigeration		73.6		6.2		79.8
Total		\$ 232.3		\$ 11.2		\$ 243.5

(1) Changes are primarily related to fluctuations in foreign currency exchange rates.

Table of Contents**5. Derivatives:***General*

Our earnings and cash flows are subject to fluctuations due to changes in commodity prices, interest rates, and foreign currency exchange rates and we seek to mitigate a portion of these risks by entering into derivative contracts. The derivatives we use are commodity futures contracts, interest rate swaps, and currency forward contracts. We do not use derivatives for speculative purposes.

The derivatives we enter into may be, but are not always, accounted for as hedges. To qualify for hedge accounting, the derivatives must be highly effective in reducing the risk exposure that they are designed to hedge and it must be probable that the underlying transaction will occur. For instruments designated as cash flow hedges, we must formally document, at inception, the relationship between the derivative and the hedged item, the risk management objective, the hedging strategy for use of the hedged instrument, and how hedge effectiveness is, and will be, assessed. This documentation also includes linking the derivatives that are designated as cash flow hedges to forecasted transactions. We assess hedge effectiveness at inception and at least quarterly throughout the hedge designation period.

We recognize all derivatives as either assets or liabilities at fair value in the Consolidated Balance Sheets regardless of whether or not hedge accounting is applied. For more information on the fair value of these derivative instruments, see Note 16. We report cash flows arising from our hedging instruments consistent with the classification of cash flows from the underlying hedged items. Accordingly, cash flows associated with our derivative programs are classified as operating activities in the accompanying Consolidated Statements of Cash Flows.

We monitor our derivative positions and credit ratings of our counterparties and do not anticipate losses due to counterparty non-performance.

Hedge Accounting

The derivatives that we use as hedges of commodity prices and movements in interest rates are accounted for as cash flow hedges. The effective portion of the gain or loss on the derivatives accounted for as hedges is recorded, net of applicable taxes, in accumulated other comprehensive loss (AOCL), a component of Stockholders' Equity in the accompanying Consolidated Balance Sheets. When earnings is affected by the variability of the underlying cash flow, the applicable offsetting amount of the gain or loss from the derivatives that is deferred in AOCL is reclassified into earnings. Ineffectiveness, if any, is recorded in earnings each period. If the hedging relationship ceases to be highly effective, the net gain or loss shall remain in AOCL and will be reclassified into earnings when earnings is affected by the variability of the underlying cash flow. If it becomes probable that the forecasted transaction will not occur by the end of the originally specified period or within two months thereafter, the net gain or loss remaining in AOCL will be reclassified to earnings immediately.

Accounting for Derivatives When Hedge Accounting is Not Applied

We may also enter into derivatives that economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting to these instruments. The changes in fair value of the derivatives act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of instruments not designated as cash flow hedges are recorded in earnings throughout the term of the derivative instrument and are reported in Losses (Gains) and Other Expenses, net in the accompanying Consolidated Statements of Operations.

*Objectives and Strategies for Using Derivative Instruments***Commodity Price Risk**

We utilize a cash flow hedging program to mitigate the exposure to volatility in the prices of metal commodities we use in our production processes. The hedging program includes the use of futures contracts and we enter into these contracts based on our hedging strategy. We use a dollar cost averaging strategy for our hedge program. As part of this strategy, a higher percentage of commodity price exposures are hedged near term with lower percentages hedged at future dates. This strategy provides us with protection against near-term price volatility caused by market speculators and market forces, such as supply variation, while allowing us to adjust to market price movements over time. Upon entering into futures contracts, we lock in prices and are subject to derivative losses should the metal commodity prices decrease and gains should the prices increase. During 2008, metal commodity prices decreased considerably in a short time horizon, which resulted in significant derivative losses. As a result of these losses, we were required to post collateral of \$0.5 million and \$37.9 million as of June 30, 2009 and December 31, 2008, respectively. The

collateral posted was treated as a prepaid expense and recorded in Other Assets in the accompanying Consolidated Balance Sheets. The unrealized derivative losses were recorded in AOCL.

Table of Contents**Interest Rate Risk**

The majority of our debt bears interest at variable interest rates and therefore we are subject to variability in the cash paid for interest expense. In order to mitigate a portion of this risk, we use a hedging strategy to eliminate the variability of cash flows in the interest payments associated with the first \$100 million of the total variable-rate debt outstanding under our Credit Agreement that is solely due to changes in the benchmark interest rate. This strategy allows us to fix a portion of our interest payments while also taking advantage of historically low interest rates. On June 12, 2009, we entered into a \$100 million pay-fixed, receive-variable interest rate swap with a large financial institution at a fixed interest rate of 2.66%. The variable portion of the interest rate swap is tied to 1-Month LIBOR (the benchmark interest rate). The interest rates under both the interest rate swap and the underlying debt are reset, the swap is settled with the counterparty, and interest is paid, on a monthly basis. The interest rate swap expires October 12, 2012. We account for the interest rate swap as a cash flow hedge.

Foreign Currency Risk

Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of assets and liabilities arising in foreign currencies. Our objective for entering into foreign currency forward contracts is to mitigate the impact of short-term currency exchange rate movements on certain short-term intercompany transactions. In order to meet that objective, we periodically enter into foreign currency forward contracts that act as economic hedges against changes in foreign currency exchange rates. These forward contracts are not designated as hedges and generally expire within the quarter that they are entered into.

Cash Flow Hedges

We include (gains) losses in AOCL in connection with our cash flow hedges. The (gains) losses related to commodity price hedges are expected to be reclassified into earnings within the next 18 months based on the prices of the commodities at settlement date. Assuming that commodity prices remain constant, \$2.2 million of derivative losses are expected to be reclassified into earnings within the next 12 months. Commodity futures contracts that are designated as cash flow hedges and are in place as of June 30, 2009 are scheduled to mature through November 2010. The (gains) losses related to our interest rate swap are expected to be reclassified into earnings within the next 40 months based on the term of the swap. Assuming that the benchmark interest rate remains constant, \$1.2 million of derivative losses are expected to be reclassified into earnings within the next 12 months.

We recorded the following amounts related to our cash flow hedges (in millions):

	As of June 30, 2009	As of December 31, 2008
Commodity Price Hedges:		
Losses included in AOCL, net of tax	\$ 1.8	\$ 21.3
Tax benefit	(1.0)	(11.9)
Interest Rate Swap:		
Losses included in AOCL, net of tax	\$ 1.2	\$
Tax benefit	(0.7)	

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We had the following outstanding futures contracts designated as cash flow hedges (in millions):

	As of June 30, 2009 (pounds)	As of December 31, 2008 (pounds)
Copper	14.3	23.1

Derivatives not Designated as Cash Flow Hedges

For commodity derivatives not designated as cash flow hedges, we follow the same hedging strategy as for derivatives designated as cash flow hedges. We elect not to designate these derivatives as cash flow hedges at inception of the arrangement. We had the following outstanding commodity futures contracts not designated as cash flow hedges (in millions):

	As of June 30, 2009 (pounds)	As of December 31, 2008 (pounds)
Copper	1.7	2.9
Aluminum	1.8	3.2

During the second quarter of 2009 we entered into foreign currency forward contracts with notional amounts of \$41.9 million, of which \$16.4 million were still outstanding at the end of the second quarter of 2009.

Information About the Location and Amounts of Derivative Instruments

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations, see the tabular information presented below (in millions):

Fair Values of Derivative Instruments

	As of June 30, 2009		As of December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives				
Derivatives designated as hedging instruments under SFAS No. 133				
Commodity futures contracts	Other Assets (Current)	\$ 1.6	Other Assets (Current)	\$
	Other Assets		Other Assets	
Commodity futures contracts	(Non-current)	0.6	(Non-current)	
		2.2		
Derivatives not designated as hedging instruments under SFAS No. 133				
Commodity futures contracts	Other Assets (Current)	\$ 0.2	Other Assets	\$
	Other Assets		Other Assets	
Commodity futures contracts	(Non-current)	0.1	(Non-current)	
		0.3		

Total Asset for Derivatives		\$	2.5		\$	
Liability Derivatives						
Derivatives designated as hedging instruments under SFAS No. 133						
Commodity futures contracts	Accrued Expenses	\$	5.0	Accrued Expenses	\$	31.0
Interest rate swap	Accrued Expenses		1.9	Accrued Expenses		
Commodity futures contracts	Other Liabilities			Other Liabilities		2.6
		\$	6.9		\$	33.6
Derivatives not designated as hedging instruments under SFAS No. 133						
Commodity futures contracts	Accrued Expenses	\$	1.1	Accrued Expenses	\$	5.5
Foreign currency forward contracts	Accrued Expenses		0.1	Accrued Expenses		
Commodity futures contracts	Other Liabilities			Other Liabilities		0.3
		\$	1.2		\$	5.8
Total Liability for Derivatives		\$	8.1		\$	39.4

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	Location of Loss or (Gain) Reclassified	Amount of Loss or (Gain) Reclassified from AOCL into Income (Effective Portion)			
		For the Quarters Ended June 30,		For the Six Months Ended June 30,	
Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	from AOCL into Income (Effective Portion)	2009	2008	2009	2008
Commodity futures contracts	Cost of Goods Sold	\$ 6.5	\$ (5.8)	\$ 16.9	\$ (7.9)
Interest rate swap	Interest Expense, net	0.1		0.1	
		\$ 6.6	\$ (5.8)	\$ 17.0	\$ (7.9)

	Location of (Gain) or Loss Recognized	Amount of (Gain) or Loss Recognized in Income on Derivatives (Ineffective Portion)			
		For the Quarters Ended June 30,		For the Six Months Ended June 30,	
Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	in Income on Derivatives (Ineffective Portion)	2009	2008	2009	2008
Commodity futures contracts	Losses (Gains) and Other Expenses, net	\$ (0.1)	\$ 0.1	\$ (0.1)	\$

Derivatives Not Designated as Hedging Instruments under SFAS No. 133	Location of (Gain) or Loss Recognized in Income on Derivatives	Amount of (Gain) or Loss Recognized in Income on Derivatives			
		For the Quarters Ended June 30,		For the Six Months Ended June 30,	
		2009	2008	2009	2008
Commodity futures contracts	Losses (Gains) and Other Expenses, net	\$ (1.1)	\$ (0.3)	\$ (1.8)	\$ (3.3)
Foreign currency forward contracts	Losses (Gains) and Other Expenses, net	2.2		2.2	
		\$ 1.1	\$ (0.3)	\$ 0.4	\$ (3.3)

6. Income Taxes:

As of June 30, 2009, we had approximately \$14.6 million in total gross unrecognized tax benefits. Of this amount, \$6.6 million (net of federal benefit on state issues), if recognized, would be recorded through the Consolidated Statement of Operations. Also included in the balance of unrecognized tax benefits as of June 30, 2009 are liabilities

of \$6.4 million that, if recognized, would be recorded as an adjustment to stockholders' equity. As of June 30, 2009, we had recognized \$1.0 million (net of federal tax benefits) in interest and penalties in income tax expense.

The Internal Revenue Service (IRS) has completed its examination of our consolidated tax returns for the years 2004-2005 and issued a Revenue Agent's Report (RAR) on July 31, 2008. The IRS has proposed certain significant adjustments to our insurance deductions and research tax credits. We disagree with the RAR, which is currently under review by the administrative appeals division of the IRS, and anticipate resolution by the end of 2009. It is possible that a reduction in the unrecognized tax benefits may occur, but an estimate of the impact on the Consolidated Statement of Operations cannot be made at this time.

The IRS also completed its examination of our consolidated tax returns for the years ended 2006-2007 and issued an RAR on June 1, 2009. The IRS has proposed a significant adjustment to our research tax credits. We disagree with the RAR and have requested a review by the administrative appeals division of the IRS. We anticipate resolution by the end of 2009. It is possible that a reduction in the unrecognized tax benefits may occur, but an estimate of the impact on the Consolidated Statement of Operations cannot be made at this time.

We are subject to examination by numerous taxing authorities in jurisdictions such as Australia, Belgium, Canada, Germany, and the United States. We are generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by taxing authorities for years before 2002.

Since January 1, 2009, Wisconsin, California, Virginia and North Dakota have enacted legislation effective for tax years beginning on or after January 1, 2009, including requirements for combined reporting and changes to apportionment methods. We believe any adjustments will be immaterial.

Table of Contents**7. Commitments and Contingencies:**

We are subject to contingencies that arise in the normal course of business, including product warranties and other product related contingencies, pending litigation, environmental matters and other guarantees or claims.

We use a combination of third-party insurance and self-insurance plans (large deductible or captive) to provide protection against claims relating to contingencies such as workers' compensation, general liability, product liability, property damage, aviation liability, directors' and officers' liability, auto liability, physical damage and other exposures. Of these exposures, we use self-insurance plans for workers' compensation/employers' liability, general liability, product liability, and auto liability. During the second quarter of 2009, these policies were written through a third-party insurance provider, which was then reinsured by our captive insurance subsidiary. Currently these policies are fronted by a commercial insurance company and we then pay the premium directly into our captive insurance company. We believe that the liability limits retained by the captive are customary for a company of our size and in our industry and are appropriate for our business.

In addition, we use third-party insurance plans for property damage, aviation liability, directors' and officers' liability, and other exposures. Each of these policies includes per occurrence limits. However, we also carry umbrella or excess liability insurance for all third-party and self-insurance plans, except for directors' and officers' liability. We believe the limit within our excess policy is adequate for companies of our size in our industry.

The self-insurance expense and liabilities are actuarially determined based on our historical claims information, as well as industry factors and trends and because we have a captive insurance company, we are required to maintain specified levels of liquid assets from which we must pay claims. The majority of our self-insured risks (excluding auto liability and physical damage) will be paid over an extended period of time. The self-insurance liabilities recorded in Accrued Expenses in the accompanying Consolidated Balance Sheets were \$66.7 million at June 30, 2009 and \$63.3 million as of December 31, 2008.

Total liabilities for estimated warranty are included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	As of June 30, 2009	As of December 31, 2008
Accrued Expenses	\$ 30.6	\$ 30.2
Other Liabilities	51.5	64.3
	\$ 82.1	\$ 94.5

The changes in the total warranty liabilities for the six months ended June 30, 2009 were as follows (in millions):

Total warranty liability as of December 31, 2008	\$ 94.5
Payments made in 2009	(13.3)
Changes resulting from issuance of new warranties	12.9
Changes in estimates associated with pre-existing liabilities	(12.6)
Changes in foreign currency exchange rates	0.6
Total warranty liability as of June 30, 2009	\$ 82.1

At the end of each accounting period, we evaluate our warranty liabilities and during the second quarter of each year, we perform a complete reevaluation of our warranty liabilities. As a result of our annual evaluation, we have recorded a reduction in warranty liabilities that is the principal amount contained within the changes in estimates associated with pre-existing liabilities of \$12.6 million above. The reduction to our warranty liabilities was principally caused by

lower than expected failure rates, reductions to future cost estimates, and new experience data.

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We incur the risk of liability claims for the installation and service of heating and air conditioning products and we maintain liabilities for those claims that we self-insure. We are involved in various claims and lawsuits related to our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims are not covered by our product liability insurance and certain product liability claims may also not be covered by our product liability insurance. There have been no material changes in the circumstances since our latest fiscal year-end.

We also may incur costs related to our products that may not be covered under our warranties and are not covered by insurance, and we may, from time to time, repair or replace installed products experiencing quality issues in order to satisfy our customers and to protect our brand. These product quality issues may be caused by vendor-supplied components that fail to meet required specifications. We have identified a product quality issue in a heating and cooling product line produced during a limited time period that we believe results from a vendor-supplied component that failed to meet required specifications. We have recorded a liability of \$4.2 million for the portion of the issue that is probable and can be reliably estimated based upon the current data available. We are working to determine the scope and nature of the issue. Any additional liability resulting from the product quality issue and any related recovery from the vendor cannot be reasonably estimated at this time.

We estimate the costs to settle pending litigation based on experience involving similar claims and specific facts known. We do not believe that any current or pending or threatened litigation will have a material adverse effect on our financial position. Litigation and arbitration, however, involve uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period.

Applicable environmental laws can potentially impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some facilities; however, we do not presently believe that any future remediation costs at such facilities will be material to our results of operations. There have been no material changes to the reserve balances since our latest fiscal year-end.

On June 22, 2006, we entered into an agreement with a financial institution to lease our corporate headquarters in Richardson, Texas for a term of seven years (the "Lake Park Lease"). The leased property consists of an office building of approximately 192,000 square feet, land and related improvements. Our obligations under the Lake Park Lease are secured by a pledge of our interest in the leased property and are also guaranteed by us and certain of our subsidiaries. The Lake Park Lease, as amended, contains restrictive covenants that are consistent with those of our domestic revolving credit facility. We are in compliance with these financial covenants as of June 30, 2009.

8. Lines of Credit and Financing Arrangements:***Long-Term Debt and Lines of Credit***

The following tables summarize our outstanding debt obligations and the classification in the accompanying Consolidated Balance Sheets (in millions):

Description of Obligation As of June 30, 2009	Short-Term Debt	Current Maturities	Long-Term Maturities	Total
Domestic promissory notes ⁽¹⁾	\$	\$ 35.0	\$	\$ 35.0
Domestic revolving credit facility			259.0	259.0
Capital lease obligations		0.1	17.6	17.7
Foreign obligations	7.5	0.2	0.3	8.0
Total debt	\$ 7.5	\$ 35.3	\$ 276.9	\$ 319.7

Description of Obligation As of December 31, 2008	Short-Term Debt	Current Maturities	Long-Term Maturities	Total
Domestic promissory notes ⁽¹⁾	\$	\$ 35.0	\$	\$ 35.0
Domestic revolving credit facility			359.8	359.8

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Capital lease obligations			0.3		18.6		18.9	
Foreign obligations		6.1		0.3		0.3	6.7	
Total debt	\$	6.1	\$	0.6	\$	413.7	\$	420.4

(1) Domestic promissory notes bear interest at 8.00% and mature in 2010.

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As of June 30, 2009, we had outstanding borrowings of \$259.0 million and an additional \$107.3 million committed to standby letters of credit under the \$650 million domestic revolving credit facility. All of the remaining \$283.7 million was available for future borrowings. The facility matures in October 2012.

The domestic revolving credit facility includes a subfacility for swingline loans of up to \$50 million and provides for the issuance of letters of credit for the full amount of the domestic revolving credit facility. Our weighted average borrowing rate on the domestic revolving credit facility was 1.14% and 2.26% as of June 30, 2009 and December 31, 2008, respectively.

The Third Amendment and Restated Revolving Credit Facility Agreement (the *Credit Agreement*) contains financial covenants relating to leverage and interest coverage. Other covenants contained in the *Credit Agreement* restrict, among other things, mergers, asset dispositions, guarantees, debt, liens, acquisitions, investments, affiliate transactions and our ability to make restricted payments. The financial covenants require us to maintain a Consolidated Indebtedness to Adjusted EBITDA Ratio and a Cash Flow (defined as EBITDA minus capital expenditures) to Net Interest Expense Ratio. The required ratios as of June 30, 2009 are detailed below:

Consolidated Indebtedness to Adjusted EBITDA Ratio no greater than 3.5 : 1.0

Cash Flow to Net Interest Expense Ratio no less than 3.0 : 1.0

The *Credit Agreement* contains customary events of default. These events of default include nonpayment of principal or interest, breach of covenants or other restrictions or requirements, default on any other indebtedness or receivables securitizations (cross default), or bankruptcy. A cross default could occur if:

- we fail to pay any principal or interest when due on any other indebtedness or receivables securitization of at least \$40 million; or
- we are in default on any other indebtedness or receivables securitization in an aggregate principal amount of at least \$40 million; and
- such default gives the holders the right to declare such indebtedness due and payable prior to its stated maturity.

If a cross default was to occur it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, lenders with a majority of the aggregate commitments may require the administrative agent to terminate our right to borrow under the *Credit Agreement* and accelerate amounts due under the *Credit Agreement* (except for a bankruptcy event of default, in which case, such amounts will automatically become due and payable and the lenders' commitments will automatically terminate).

The domestic promissory notes contain the same financial covenant restrictions as the *Credit Agreement* listed above. As of June 30, 2009, we were in compliance with all covenant requirements. Our revolving credit facility and promissory notes are guaranteed by our material subsidiaries.

We have additional borrowing capacity through several foreign facilities governed by agreements between us and various banks, used primarily to finance seasonal borrowing needs of our foreign subsidiaries. Available capacity at June 30, 2009 and December 31, 2008 on foreign facilities were \$26.7 million and \$26.0 million, respectively.

During 2008, we expanded our Tifton, Georgia manufacturing facility using the proceeds from Industrial Development Bonds (IDBs). We entered into a lease agreement with the owner of the property and the issuer of the IDBs, and through our lease payments fund the interest payments to investors in the IDBs. We also guaranteed the repayment of the IDBs and entered into letters of credit totaling \$14.5 million to fund a potential repurchase of the IDBs in the event that investors exercised their right to tender the IDBs to the Trustee. At June 30, 2009 and December 31, 2008, we recorded both a capital lease asset and a corresponding long-term obligation of \$14.3 million and \$15.3 million, respectively, related to these transactions.

Credit Rating

At June 30, 2009, our senior credit rating was Ba1, with a stable outlook, by Moody's and BB+, with a stable outlook, by Standard & Poor's Rating Group (S&P).

Table of Contents**Asset Securitization**

Under a revolving period asset securitization arrangement (ASA), we are eligible to sell beneficial interests in a portion of our trade accounts receivable to participating financial institutions for cash. The arrangement expires November 25, 2009, and is subject to renewal. Our continued involvement in the transferred assets is limited to servicing, which includes collection and administration of the transferred beneficial interests. The accounts receivable sold under the ASA are high quality domestic customer accounts that have not aged significantly and the program takes into account an allowance for uncollectable accounts. The receivables represented by the retained interest that we service are exposed to the risk of loss for any uncollectable amounts in the pool of receivables sold under the ASA. The fair values assigned to the retained and transferred interests are based on the sold accounts receivable carrying value given the short term to maturity and low credit risk.

The ASA contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Credit Agreement. The administrative agent under the ASA is also a participant in our Credit Agreement. The participating financial institution has an investment grade credit rating. We continue to evaluate its credit rating and have no reason to believe it will not perform under the ASA. As of June 30, 2009, we were in compliance with all covenant requirements.

The ASA provides for a maximum securitization amount of \$125.0 million or 100% of the net pool balance as defined by the ASA. However, eligibility for securitization is limited based on the amount and quality of the accounts receivable and is calculated monthly. The beneficial interest sold cannot exceed the maximum amount even if our qualifying accounts receivable is greater than the maximum amount at any point in time. The eligible amounts available were as follows (in millions):

	As of June 30, 2009	As of December 31, 2008
Eligible amount available under the ASA on qualified accounts receivable	\$ 115.6	\$ 91.0
Beneficial interest sold	(30.0)	(30.0)
Remaining amount available	\$ 85.6	\$ 61.0

Under the ASA, we pay certain discount fees to use the program and have the facility available to us. These fees relate to both the used and unused portions of the securitization. The used fee is based on the beneficial interest sold and calculated on the average floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.75%. The rate as of June 30, 2009 and December 31, 2008 was 0.50% and 2.14%, respectively. The unused fee is based on 102% of the maximum available amount less the beneficial interest sold and calculated at 0.3% fixed rate throughout the term of the agreement. We recorded these fees in Gains and Other Expenses, net and Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations. The amounts recorded were as follows (in millions):

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Discount fees	\$ 0.2	\$ 0.1	\$ 0.4	\$ 0.1

9. Pension and Postretirement Benefit Plans:

The components of net periodic benefit cost were as follows (in millions):

	For the Quarters Ended June 30,			
	2009	2008	2009	2008
	Pension Benefits		Other Benefits	
Service cost	\$ 1.4	\$ 1.7	\$ 0.2	\$ 0.2

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Interest cost	4.4	4.1	0.2	0.2
Expected return on plan assets	(4.1)	(4.5)		
Amortization of prior service cost	0.2	0.2	(0.5)	(0.5)
Amortization of net loss	2.2	1.2	0.3	0.3
Settlements or curtailments	0.4	1.6		
Total net periodic pension cost	\$ 4.5	\$ 4.3	\$ 0.2	\$ 0.2

For the Six Months Ended June 30,

	2009	2008	2009	2008
	Pension Benefits		Other Benefits	
Service cost	\$ 2.8	\$ 3.5	\$ 0.4	\$ 0.4
Interest cost	8.7	8.2	0.4	0.4
Expected return on plan assets	(8.1)	(9.0)		
Amortization of prior service cost	0.3	0.3	(1.0)	(1.0)
Amortization of net loss	4.5	2.4	0.6	0.6
Settlements or curtailments	0.4	1.6		
Total net periodic pension cost	\$ 8.6	\$ 7.0	\$ 0.4	\$ 0.4

Table of Contents**10. Comprehensive Income:**

Comprehensive income for the quarters and six months ended June 30, 2009 and 2008 was computed as follows (in millions):

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 31.7	\$ 51.2	\$ 13.6	\$ 57.5
Foreign currency translation adjustments	38.5	6.8	27.2	15.9
Derivatives and other	7.2	(2.7)	18.1	6.0
Total comprehensive income	\$ 77.4	\$ 55.3	\$ 58.9	\$ 79.4

11. Stock-Based Compensation:

Our Amended and Restated 1998 Incentive Plan provides for various long-term incentive awards, which include stock options, performance share units, restricted stock units and stock appreciation rights.

Stock-based compensation expense of \$3.1 million and \$5.2 million was recognized for the quarter and six months ended June 30, 2009, respectively, and is included in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations. Stock-based compensation expense of \$3.5 million and \$6.6 million was recognized for the quarter and six months ended June 30, 2008, respectively. The decrease in stock-based compensation expense was primarily due to a decrease in the estimated pay-out percentage on outstanding performance share units in the quarters and six months ended June 30, 2009 as compared to the same periods in 2008. Cash flows from the tax benefits related to share-based payments of \$0.2 million and \$10.9 million were included in cash flows from financing activities for the six months ended June 30, 2009 and 2008, respectively.

12. Restructuring Charges:

As part of our strategic priorities of manufacturing and sourcing excellence and expense reduction, we have initiated various manufacturing rationalization actions designed to lower our cost structure. We also have begun to reorganize our North American distribution network in order to better serve our customers' needs by deploying parts and equipment inventory closer to them. We have also initiated a number of activities that rationalize and reorganize various support and administrative functions to reduce ongoing selling and administrative expenses.

Information on Total Restructuring Charges and Related Reserves

Restructuring charges incurred as a result of the actions include the following amounts (in millions):

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Manufacturing rationalizations	\$ 1.3	\$ 6.8	\$ 8.9	\$ 9.6
Reorganization of distribution network	0.2		0.3	
Reorganizations of corporate and business unit selling and administrative functions	3.2	0.9	6.7	0.9
Total	\$ 4.7	\$ 7.7	\$ 15.9	\$ 10.5

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The components of the restructuring charges recorded in the second quarter and first half of 2009 are discussed below. The restructuring charges recorded during the second quarter and first half of 2008 related to the transition of production of selected Refrigeration products manufactured in Milperra, Australia to its sister facility in Wuxi, China, the closure and consolidation of our Refrigeration manufacturing, support and warehouse functions located in Danville, Illinois, Tifton, Georgia and Stone Mountain, Georgia operations, the closure of certain Residential Heating & Cooling operations in Lynwood, California and the consolidation of factory-built fireplace manufacturing operations into our facility in Union City, Tennessee.

Restructuring reserves are included in Accrued Expenses in the accompanying Consolidated Balance Sheets. The table below details activity within the restructuring reserves for the first half of 2009 (in millions):

Description of Reserves	Balance as of December 31, 2008	Charged to Earnings	Cash Utilization	Non-Cash Utilization and Other	Balance as of June 30, 2009
Severance and related expense	\$ 9.3	\$ 8.1	\$ (8.8)	\$	\$ 8.6
Asset write-offs and accelerated depreciation		2.8		(2.8)	
Equipment moves		1.3	(1.3)		
Lease termination	0.6	0.8	(0.5)		0.9
Other ⁽¹⁾	1.0	2.9	(2.7)		1.2
Total restructuring reserves	\$ 10.9	\$ 15.9	\$ (13.3)	\$ (2.8)	\$ 10.7

(1) Charges classified as Other include \$1.0 million for previously received economic development grants that will be returned as a result of the Blackville plant closure, \$0.6 million of facilities clean-up and demolition costs, manufacturing inefficiencies and inventory move costs of \$0.6 million, \$0.5 million of

third-party
services related
to restructuring
activities and
other costs of
\$0.2 million.

Manufacturing Rationalization Activities

Information regarding the restructuring charges related to manufacturing rationalizations is as follows (in millions):

	Charges Incurred in 2009	Charges Incurred to Date	Total Charges Expected to be Incurred
Severance and related expense	\$ 2.8	\$ 14.6	\$ 14.6
Asset write-offs and accelerated depreciation	2.7	7.6	11.4
Equipment moves	1.0	4.6	6.5
Other	2.4	12.5	14.6
Total	\$ 8.9	\$ 39.3	\$ 47.1

Restructuring expense for manufacturing rationalization activities related to the following:

In the first quarter of 2009, we began the consolidation of Residential Heating & Cooling manufacturing operations from Blackville, South Carolina into our operations in Orangeburg, South Carolina and Saltillo, Mexico. The consolidation is expected to be completed within two years. Total restructuring charges recorded related to this action in the second quarter of 2009 were \$0.8 million. Total restructuring charges recorded related to this action in the first half of 2009 were \$6.1 million. These charges were primarily composed of accelerated depreciation, severance, and previously received economic development grants that will be returned as a result of the Blackville plant closure.

In the fourth quarter of 2007, we announced plans to close our Refrigeration operations in Danville, Illinois and consolidate Danville manufacturing, support and warehouse functions into our Tifton, Georgia and Stone Mountain, Georgia operations. The operations at Danville ceased as of the end of the first quarter of 2009 and the transition was completed in the second quarter of 2009. Total restructuring charges recorded in the second quarter of 2009 related to this action were \$0.2 million. Total restructuring charges recorded in the first half of 2009 related to this action were \$2.1 million. These charges were primarily composed of facility clean-up costs, equipment moving costs and manufacturing inefficiencies incurred prior to the plant closure.

In the second quarter of 2008, we announced the transition of production of certain Residential Heating & Cooling products from our Marshalltown, Iowa manufacturing facility to our manufacturing operations in Saltillo, Mexico. Total restructuring charges recorded in second quarter of 2009 related to this action were \$0.3 million. Total restructuring charges recorded in first half of 2009 related to this action were \$0.6 million. The transition was completed in the second quarter of 2009.

Table of Contents*Reorganization of Distribution Network*

In the fourth quarter of 2008, we commenced the transition of activities then performed at our North American Parts Center in Des Moines, Iowa to other locations, including our North American Distribution Center in Marshalltown, Iowa. We incurred \$0.2 million of restructuring charges during the second quarter and \$0.3 million of restructuring charges during the first half of 2009 related to this transition, which were primarily composed of equipment moving costs. To date, we have incurred \$3.2 million, which was composed primarily of severance, and we expect the total cost to be \$4.4 million related to this restructuring activity. The total cost of this restructuring activity will be composed of severance of \$3.4 million, equipment moving costs of \$0.3 million and other costs of \$0.7 million. The transition is expected to be completed in the first quarter of 2010.

Reorganizations of Corporate and Business Unit Selling and Administrative Functions

Information regarding the restructuring charges related to the reorganization of corporate and business unit selling and administrative functions is as follows (in millions):

	Charges Incurred in 2009	Charges Incurred to Date	Total Charges Expected to be Incurred
Severance and related expense	\$ 5.5	\$ 9.6	\$ 10.5
Asset write-offs and accelerated depreciation	0.1	0.8	0.9
Lease termination	0.7	1.0	1.1
Other	0.4	1.1	1.4
Total	\$ 6.7	\$ 12.5	\$ 13.9

We incurred costs related to the following restructuring actions in our selling and administrative activities:

During the first half of 2009, we reorganized our Commercial Heating & Cooling selling and administrative organization in the United States and Canada. As a result of this action, we recorded restructuring charges of \$1.1 million during the first half of 2009. No charges were recorded during the second quarter of 2009 related to this action. The action was completed during the second quarter of 2009.

In the third quarter of 2008, our Commercial Heating & Cooling business unit began to reorganize its selling and administrative functions in Northern Europe through a series of restructuring actions. Total restructuring charges recorded in second quarter of 2009 related to this action were \$2.1 million. Total restructuring charges recorded in first half of 2009 related to this action were \$3.1 million. These actions are expected to be completed by the third quarter of 2009.

During the first quarter of 2009, we began to reorganize the management structure of our Refrigeration administrative and support functions across the globe. Total restructuring charges recorded in second quarter of 2009 related to this action were \$0.7 million. We recorded total restructuring charges of \$1.4 million during the first half of 2009 related to this action. The action will be completed during the third quarter of 2009.

During the first quarter of 2009, we reorganized the Residential Heating & Cooling selling and administrative organization in the United States. As a result of this action, we recorded restructuring charges of \$0.4 million during the first quarter and first half of 2009. The action was completed during the second quarter of 2009.

During the first quarter of 2009, Service Experts began to centralize certain of its administrative and support functions through a series of restructuring actions. As a result of these actions, we recorded restructuring charges of \$0.2 million during the second quarter of 2009. We recorded total restructuring charges of \$0.4 million during the first half of 2009 related to this action. These actions are expected to be completed during the fourth quarter of 2009.

During the second quarter of 2009 we reorganized certain corporate administrative functions and we recorded \$0.2 million in severance related to this action.

Table of Contents**13. Discontinued Operations:**

In the fourth quarter of 2008, our management approved a plan to discontinue operations of seven service centers within our Service Experts business segment. We decided to sell these seven centers due to current economic conditions and a history of operating losses. The related assets and liabilities for these service centers have been classified as current assets and liabilities in the accompanying Consolidated Balance Sheets. By the end of the first quarter of 2009, we had entered into agreements to sell all seven service centers.

The operating results of these centers have been classified as Discontinued Operations in the accompanying Consolidated Statements of Operations and prior period results have been reclassified to conform to the current period presentation.

A summary of net trade sales, gain on disposal of assets and liabilities and pre-tax operating losses are detailed below (in millions):

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net trade sales	\$	\$ 3.3	\$ 1.2	\$ 5.9
Gain on disposal of assets and liabilities included in pre-tax operating loss			1.0	
Pre-tax operating loss ⁽¹⁾	6.8	0.3	6.6	1.1

The assets and liabilities of the discontinued operations are presented as follows in the accompanying Consolidated Balance Sheets (in millions):

	As of June 30, 2009	As of December 31, 2008
Assets of discontinued operations:		
Other assets	\$	\$ 0.8
Liabilities of discontinued operations:		
Accrued expenses ⁽¹⁾	\$ 8.0	\$ 3.2

(1) Included in accrued expenses is a \$7.4 million liability for litigation related to the sale of a service center in 2004 that was included in discontinued operations, for which a charge of \$6.2 million was included in pre-tax operating loss during the second quarter

of 2009.

14. Earnings Per Share:

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares and the number of equivalent shares assumed outstanding, if dilutive, under our stock-based compensation plans. As of June 30, 2009, we had 84,705,778 shares issued of which 29,213,699 were held as treasury shares and were therefore excluded from the weighted-average shares outstanding.

The computations of basic and diluted earnings per share for Income from Continuing Operations were as follows (in millions, except per share data):

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 31.7	\$ 51.2	\$ 13.6	\$ 57.5
Add: Loss from discontinued operations	4.2	0.2	4.1	0.7
Income from continuing operations	\$ 35.9	\$ 51.4	\$ 17.7	\$ 58.2
Weighted-average shares outstanding basic	55.4	56.2	55.3	58.2
Effect of diluted securities attributable to stock-based payments	1.2	1.8	0.6	2.0
Weighted-average shares outstanding diluted	56.6	58.0	55.9	60.2
Earnings per share from continuing operations:				
Basic	\$ 0.65	\$ 0.92	\$ 0.32	\$ 1.00
Diluted	\$ 0.63	\$ 0.89	\$ 0.32	\$ 0.97

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Stock appreciation rights were outstanding, but not included in the diluted earnings per share calculation because the assumed exercise of such rights would have been anti-dilutive. The details are as follows:

	For the Six Months Ended			
	June 30,			
	2009		2008	
Number of shares	625,334		49,700	
Price ranges per share	\$ 34.52	37.11	\$ 35.82	43.66

15. Reportable Business Segments:

We operate in four reportable business segments of the heating, ventilation, air conditioning and refrigeration (HVACR) industry. Our segments are organized primarily by the nature of the products and services provided. The table below details the nature of the operations of each reportable segment:

Segment	Product or Services	Markets Served	Geographic Areas
<i>Residential Heating & Cooling</i>	Heating Air Conditioning Hearth Products	Residential Replacement Residential New Construction	United States Canada
<i>Commercial Heating & Cooling</i>	Rooftop Products Chillers Air Handlers	Light Commercial	United States Canada Europe
<i>Service Experts</i>	Equipment Sales Installation Maintenance Repair	Residential Light Commercial	United States Canada
<i>Refrigeration</i>	Unit Coolers Condensing Units Other Commercial Refrigeration Products	Light Commercial	United States Canada Europe Asia Pacific South America

Transactions between segments, such as products sold to Service Experts by the Residential Heating & Cooling segment, are recorded on an arm's-length basis using the market price for these products. The eliminations of these intercompany sales and any associated profit are noted in the reconciliation of segment results to the income from continuing operations before income taxes below.

We use segment profit or loss as the primary measure of profitability to evaluate operating performance and to allocate capital resources. We define segment profit or loss as a segment's income or loss from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations:

Excluding:

Gains and/or losses and other expenses, net except for gains and/or losses on the sale of fixed assets.

Restructuring charges.

Goodwill and equity method investment impairments.

Interest expense, net.

Other expense, net.

Less amounts included in Losses (Gains) and Other Expenses, net:

Realized gains and/or losses on settled derivative contracts.

Foreign currency exchange gains and/or losses.

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Our corporate costs include those costs related to corporate functions such as legal, internal audit, treasury, human resources, tax compliance and senior executive staff. Corporate costs also include the long-term share-based incentive awards provided to employees throughout LII. We recorded these share-based awards as corporate costs as they are determined at the discretion of the Board of Directors and based on the historical practice of doing so for internal reporting purposes.

Net sales and segment profit (loss) by business segment, along with a reconciliation of segment profit to net earnings are shown below (in millions):

	For the Quarters Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
<i>Net Sales</i>				
Residential Heating & Cooling	\$ 379.3	\$ 450.7	\$ 625.6	\$ 779.9
Commercial Heating & Cooling	162.7	229.5	294.2	394.7
Service Experts	153.7	179.6	262.9	317.1
Refrigeration	122.1	169.1	235.8	323.8
Eliminations ⁽¹⁾	(27.3)	(29.3)	(42.6)	(51.4)
	\$ 790.5	\$ 999.6	\$ 1,375.9	\$ 1,764.1
 <i>Segment Profit (Loss)</i>				
Residential Heating & Cooling	\$ 39.3	\$ 50.0	\$ 34.5	\$ 63.2
Commercial Heating & Cooling	19.3	26.7	21.3	32.9
Service Experts	8.7	14.3	0.7	7.4
Refrigeration	9.6	17.5	16.1	32.2
Corporate and other	(14.7)	(8.7)	(28.6)	(20.9)
Eliminations ⁽¹⁾		(0.5)	(0.4)	(2.1)
Subtotal that includes segment profit and eliminations	62.2	99.3	43.6	112.7
Reconciliation to income from continuing operations before income taxes:				
Losses (gains) and other expenses, net of gain on sale of fixed assets	0.8	(4.4)		(7.8)
Restructuring charges	4.7	7.7	15.9	10.5
Impairment of equity method investment		2.3		2.3
Interest expense, net	1.9	3.8	3.6	6.5
Other expense, net	0.1	0.1	0.1	0.1
Less: Realized (losses) gains on settled derivative contracts ⁽²⁾	(1.3)	0.6	(3.3)	1.1
Less: Foreign currency exchange (losses) gains ⁽²⁾	(1.5)	4.7	(1.3)	4.8
Income from continuing operations before income taxes	\$ 57.5	\$ 84.5	\$ 28.6	\$ 95.2

(1) Eliminations consist of

intercompany sales between business segments, such as products sold to Service Experts by the Residential Heating & Cooling segment.

- (2) Realized (losses) gains on settled derivative contracts, the ineffective portion of settled cash flow hedges and foreign currency exchange (losses) gains are components of Losses (Gains) and Other Expenses, net in the accompanying Consolidated Statements of Operations.

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Total assets by business segment are shown below (in millions). The assets in the Corporate segment are primarily comprised of cash, short-term investments and deferred tax assets. Assets recorded in the operating segments represent those assets directly associated with those segments.

	As of June 30, 2009	As of December 31, 2008
<i>Total Assets</i>		
Residential Heating & Cooling	\$ 562.5	\$ 492.1
Commercial Heating & Cooling	282.2	319.0
Service Experts	177.2	170.6
Refrigeration	345.0	340.4
Corporate and other	247.8	345.3
Eliminations ⁽¹⁾	(14.7)	(8.7)
Total assets	1,600.0	1,658.7
Discontinued operations (See Note 13)		0.8
Total assets	\$ 1,600.0	\$ 1,659.5

(1) Eliminations consist of net intercompany receivables and intercompany profit included in inventory from products sold between business segments, such as products sold to Service Experts by the Residential Heating & Cooling segment.

16. Fair Value Measurements:***Fair Value Hierarchy***

The three-level fair value hierarchy for disclosure of fair value measurements defined by SFAS No. 157 is as follows:

Level 1 Quoted prices for *identical* instruments in active markets at the measurement date.

Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets at the measurement date and for the anticipated term of the instrument.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable* inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Table of Contents**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in millions):

	Fair Value Measurements on a Recurring Basis as of June 30, 2009			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Short-term investments	\$	\$ 33.5	\$	\$ 33.5
Investment in marketable equity securities ⁽¹⁾	1.9			1.9
Derivatives, net ⁽²⁾		2.5		2.5
Liabilities:				
Derivatives, net ⁽³⁾	\$	\$ 8.1	\$	\$ 8.1

(1) Investment in marketable equity securities is recorded in Other Long-term Assets in the accompanying Consolidated Balance Sheets.

(2) Asset derivatives are recorded in Other Assets in the accompanying Consolidated Balance Sheets. See Note 5 for more information.

(3) Liability derivatives are recorded in Accrued Expenses and

Other Liabilities
in the
accompanying
Consolidated
Balance Sheets.
See Note 5 for
more
information.

Other Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts and notes receivable, net, accounts payable and other current liabilities approximate fair value due to the short maturities of these instruments. The fair values of each of our long-term debt instruments are based on the quoted market prices for the same issues or on the amount of future cash flows associated with each instrument using current market rates for debt instruments of similar maturities and credit risk. The estimated fair value of non-convertible long-term debt (including current maturities) was \$346.7 million and \$460.3 million as of June 30, 2009 and December 31, 2008, respectively. The fair values presented are estimates and are not necessarily indicative of amounts for which we could settle such instruments currently or indicative of our intent or ability to dispose of or liquidate them.

17. Subsequent Events:

We have evaluated subsequent events through July 30, 2009, which was the date the financial statements were issued.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management's assumptions and beliefs. All statements, other than statements of historical fact, included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements identified by the words may, will, should, plan, predict, anticipate, believe, and expect and similar expressions. Such statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties. In addition to the specific uncertainties discussed elsewhere in this Quarterly Report on Form 10-Q, the risk factors set forth in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, and those set forth in Part II, Item 1A. Risk Factors of this report, if any, may affect our performance and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Overview

We operate in four reportable business segments of the heating, ventilation, air conditioning and refrigeration, (HVACR) industry. Our reportable segments are Residential Heating & Cooling, Commercial Heating & Cooling, Service Experts and Refrigeration. For more detailed information regarding our reportable segments, see Note 15 in the Notes to our Consolidated Financial Statements.

Our products and services are sold through a combination of distributors, independent and company-owned dealer service centers, other installing contractors, wholesalers, manufacturers' representatives, original equipment manufacturers and to national accounts. The demand for our products and services is seasonal and dependent on the weather. Warmer than normal summer temperatures generate strong demand for replacement air conditioning and refrigeration products and services and colder than normal winter temperatures have the same effect on heating products and services. Conversely, cooler than normal summers and warmer than normal winters depress HVACR sales and services. In addition to weather, demand for our products and services is influenced by national and regional economic and demographic factors, such as interest rates, the availability of financing, regional population and employment trends, new construction, general economic conditions and consumer spending habits and confidence. The principal elements of cost of goods sold in our manufacturing operations are components, raw materials, factory overhead, labor and estimated costs of warranty expense. In our Service Experts segment, the principal components of cost of goods sold are equipment, parts and supplies and labor. The principal raw materials used in our manufacturing processes are steel, copper and aluminum. In recent years, a trend toward higher prices for these commodities and related components has challenged us and the HVACR industry in general. We partially mitigate the impact of higher commodity prices through a combination of price increases, commodity contracts, improved production efficiency and cost reduction initiatives. We also partially mitigate volatility in the prices of these commodities by entering into futures contracts and fixed forward contracts.

A substantial portion of the sales in each of our business segments is attributable to replacement business, with the balance comprised of new construction business. With the current downturn in residential and commercial new construction activity and current overall economic conditions, we are seeing a decline in the demand for the products and services we sell into these markets.

Our fiscal year ends on December 31 and our interim fiscal quarters are each comprised of 13 weeks. For convenience, throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, the 13-week periods comprising each fiscal quarter are denoted by the last day of the calendar quarter.

Table of Contents**Impact of Current Economic Environment on Our Business**

The second quarter of each fiscal year is the beginning of the summer and our most profitable season. During the second quarter of 2009, we continued to face challenging market conditions. The global economic downturn has impacted consumer and business confidence and led to lower replacement and new construction business across all our end markets. While we saw a decrease in the year-over-year rate of decline in our Residential and Service Experts businesses in the second quarter from the first quarter, we saw an increase in the rate in our Commercial and Refrigeration businesses. We continued to execute on our strategic priorities to win new business, capture opportunities in the replacement market, and lower our cost structure for the current market conditions.

We are continuing to adjust to lower demand levels in the marketplace by accelerated efforts to increase our operational efficiency and reduce costs while we continue to focus on providing our customers a high level of value and service. During the second quarter of 2009, we recorded restructuring charges of \$4.7 million, and during the first half of 2009 we recorded restructuring charges of \$15.9 million. In addition to the savings related to restructuring activities, we believe that we will realize additional savings from lower commodity prices on certain metals and from our global sourcing initiatives for the remainder of 2009. We are also executing on additional operating efficiency and cost reduction initiatives that are designed to substantially reduce our selling, general and administrative expenses through salaried headcount reduction and other measures. Our salaried headcount is down over 9% from the beginning of 2009.

We believe that when market conditions recover, we will be well-positioned with significant upside leverage in our business model.

Company Highlights

Net sales for the second quarter of 2009 were \$790.5 million, \$209.1 million or 20.9% below the second quarter of 2008. Lower volumes of \$204.3 million across all business segments negatively impacted revenues on a year-over-year basis.

Operational income from continuing operations for the second quarter of 2009 was \$59.5 million compared to \$88.4 million for the second quarter of 2008. The decline in operational income was primarily due to lower sales partially offset by savings from cost reductions and cost control initiatives.

Net income for the second quarter of 2009 was \$31.7 million compared to \$51.2 million in the same period in 2008. Diluted earnings per share was \$0.56 per share in the second quarter 2009 compared to \$0.88 per share in the second quarter of 2008.

We generated \$82.7 million of cash from operating activities for the first half of 2009, compared to \$23.6 million during the same period in 2008 as we continued to focus on working capital improvements.

Cash from operating activities increased primarily due to favorable working capital changes and with our strong cash generation, we repaid debt of \$85.7 million during the second quarter of 2009.

Results of Operations

The following table presents certain information concerning our financial results, including information presented as a percentage of net sales (dollars in millions):

	Second Quarter				Six Months Ended June 30,			
	2009		2008		2009		2008	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	\$ 790.5	100.0%	\$ 999.6	100.0%	\$ 1,375.9	100.0%	\$ 1,764.1	100.0%
Cost of goods sold	561.6	71.0	721.5	72.2	1,008.2	73.3	1,292.3	73.3
Gross profit	228.9	29.0	278.1	27.8	367.7	26.7	471.8	26.7
Selling, general and administrative expenses	165.8	21.0	187.2	18.7	322.8	23.5	371.1	21.0
Losses (gains) and other expenses, net	0.7	0.1	(4.6)	(0.5)	(0.1)		(7.9)	(0.4)

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Restructuring charges	4.7	0.6	7.7	0.9	15.9	1.1	10.5	0.5
Impairment of equity method investment			2.3	0.2			2.3	0.1
Income from equity method investments	(1.8)	(0.2)	(2.9)	(0.3)	(3.2)	(0.2)	(6.0)	(0.3)
Operational income	\$ 59.5	7.5%	\$ 88.4	8.8%	\$ 32.3	2.3%	\$ 101.8	5.8%
Net income	\$ 31.7	4.0%	\$ 51.2	5.1%	\$ 13.6	1.0%	\$ 57.5	3.3%

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The following table sets forth net sales by geographic market (dollars in millions):

Geographic Market:	Second Quarter				Six Months Ended June 30,			
	2009		2008		2009		2008	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
U.S.	\$ 591.0	74.8%	\$ 711.2	71.1%	\$ 1,015.9	73.8%	\$ 1,242.9	70.5%
Canada	82.9	10.5	105.5	10.6	141.3	10.3	187.0	10.6
International	116.6	14.7	182.9	18.3	218.7	15.9	334.2	18.9
Total net sales	\$ 790.5	100.0%	\$ 999.6	100.0%	\$ 1,375.9	100.0%	\$ 1,764.1	100.0%

Second Quarter of 2009 Compared to Second Quarter of 2008 Consolidated Results*Net Sales*

Net sales decreased 20.9% for the second quarter of 2009 as compared to the same period in 2008. The decrease in net sales was due to unfavorable impacts in sales volumes of approximately 21% across all segments and was driven by declines in the overall markets we serve. While the residential market continued to decline from a year ago, we saw the rate of decline slow in the second quarter. In the commercial and refrigeration markets, we saw the rate of decline increase. The declines in unit volumes were partially offset by pricing gains of approximately 2% and positive sales mix of almost 2%. Changes in foreign currency exchange rates adversely impacted revenues by almost 4%.

Gross Profit

Gross profit margins improved 120 basis points to 29.0% for the second quarter of 2009 compared to gross margins of 27.8% in the same period of 2008. Pricing gains increased gross profit margins by approximately 130 basis points. Gross profit margins were also positively impacted by nearly 60 basis points for the net incremental effect of warranty adjustments. However, product costs, including under-absorbed manufacturing costs, decreased gross profit margins by approximately 120 basis points. The changes in foreign currency exchange rates also had an approximate 20 basis point positive impact on our gross profit margins.

Selling, General and Administrative Expenses

SG&A expenses for the second quarter decreased by approximately \$21.4 million in 2009 compared to the same period in 2008. As a percentage of total net sales, SG&A expenses were 21.0% for the second quarter of 2009 and 18.7% for the second quarter of 2008 primarily due to the decline in sales volumes at a greater pace than we were able to realize benefits from our cost reduction efforts. Selling and administrative expenses decreased generally due to cost reductions, including headcount savings, totaling approximately \$13 million, and the impact of foreign exchange rates of almost \$8 million. Research and development expenses remained constant as we continue to invest in future product offerings.

Losses (Gains) and Other Expenses, Net

Losses (gains) and other expenses, net for the second quarters of 2009 and 2008 included the following (in millions):

	Second Quarter	
	2009	2008
Realized losses (gains) on settled futures contracts	\$ 1.3	\$ (0.6)
Unrealized (gains) losses on unsettled futures contracts not designated as cash flow hedges	(2.5)	0.4
Foreign currency exchange losses (gains)	1.5	(4.7)
Other items, net	0.4	0.3
Losses (Gains) and other expenses, net	\$ 0.7	\$ (4.6)

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The change in gains and losses on futures contracts was primarily due to decreases in commodity prices relative to the futures contract prices during 2009 as compared to 2008 for the contracts that settled during the quarter. Conversely, the change in unrealized (gains) losses related to unsettled futures contracts not designated as cash flow hedges was primarily due to higher commodity prices relative to the futures contract prices for those contracts. For more information, see Note 5 in the Notes to the Consolidated Financial Statements. The change in foreign currency losses (gains) was primarily due to a favorable catch-up adjustment of \$5.0 million related to foreign currency fluctuations on intercompany loans recorded in 2008. Additionally, we incurred foreign exchange transaction losses on intercompany transactions as the dollar weakened against certain foreign currencies.

Restructuring Charges

As part of our strategic priorities of manufacturing and sourcing excellence, distribution excellence and expense reduction, we have initiated actions designed to improve the delivery of our products to customers and also to lower our cost structure. We have begun to reorganize our sales support and administrative functions to be more effective and efficient in the markets we serve. We continue to focus on restructuring activities to position our company for profitable growth as the economy improves.

In the second quarters of 2009 and 2008, we incurred restructuring charges consisting of:

	Second Quarter	
	2009	2008
Manufacturing rationalizations	\$ 1.3	\$ 6.8
Reorganization of distribution network	0.2	
Reorganizations of corporate and business unit selling and administrative functions	3.2	0.9
Total	\$ 4.7	\$ 7.7

For further detail regarding restructuring reserves and individual restructuring actions, see Note 12 in the Notes to our Consolidated Financial Statements.

Manufacturing Rationalizations

The restructuring charges incurred in the second quarter of 2009 primarily related to the consolidation of Residential Heating & Cooling manufacturing operations from Blackville, South Carolina into our operations in Orangeburg, South Carolina and Saltillo, Mexico. The consolidation is expected to be completed within two years. These restructuring charges related to manufacturing rationalizations consisted primarily of \$1.3 million of asset write-offs and accelerated depreciation.

In the future, we expect to incur additional charges of \$7.8 million related to the manufacturing rationalization projects that were in process during the second quarter of 2009. Of the additional charges expected, \$3.7 million is accelerated depreciation or asset impairment charges and, therefore, non-cash. We also expect to incur \$2.0 million in equipment move costs and \$2.1 million of other costs. Included in these other costs are \$1.2 million of facility demolition and site clean-up and \$0.9 million of manufacturing inefficiencies incurred prior to the plant closure.

Reorganization of North American Distribution Network

In the second quarter of 2009, we incurred \$0.2 million of equipment move costs related to the transition of activities currently performed at our North American Parts Center in Des Moines, Iowa to other locations, including our North American Distribution Center in Marshalltown, Iowa.

In the future, we expect to incur additional charges of \$1.2 million related to this project, consisting of \$0.7 million in severance and \$0.5 million in other costs, consisting of relocation, pension curtailment and facility clean-up costs. The current restructuring project is expected to be completed within two years. We anticipate that we will initiate additional restructuring activities in this area as we seek to further enhance our North American distribution network.

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Reorganizations of Corporate and Business Unit Selling and Administrative Functions

The restructuring charges incurred in second quarter 2009 related primarily to the reorganization of selling and administrative functions in our European operations and included \$2.6 million of severance and related charges, \$0.4 million of lease termination costs, and \$0.2 million of other costs.

To date and in total, we have incurred \$12.5 million of restructuring charges related to reorganizations of selling and administrative functions for projects that were in process during the second quarter of 2009. Of that amount, \$9.6 million was severance costs, \$0.9 million was asset write-offs and accelerated depreciation, \$1.0 million was lease termination costs, and the remaining \$1.0 million was other charges.

In the future, we expect to incur additional charges of \$1.3 million related to these projects, of which \$0.9 million is expected to be severance. All of these future charges will require the use of cash.

Future Charges and Expense Savings

We anticipate incurring approximately \$10.3 million of future restructuring charges relating to projects that were in process during the second quarter of 2009. Of that amount, about \$3.7 million are anticipated to be non-cash charges for accelerated depreciation and asset impairments. Future cash outlays for restructuring activities that are currently in progress are estimated to be \$19.8 million. These restructuring charges and cash outlays are expected to be incurred generally within the next two years.

We expect to realize \$15.3 million of incremental expense savings for the remainder of 2009.

Income from Equity Method Investments

Investments over which we do not exercise control but have significant influence are accounted for using the equity method of accounting. Income from equity method investments decreased to \$1.8 million in the second quarter of 2009 compared to \$2.9 million during the same period in 2008 primarily due to the lowered performance of our U.S. joint venture in compressor manufacturing, which experienced reduced sales as a result of a reduction in our volume of purchases.

Interest Expense, net

Interest expense, net, decreased to \$1.9 million in the second quarter of 2009 from \$3.8 million during the same period in 2008. The decrease in interest expense was primarily attributable to a decrease in the average interest rate paid on variable rate debt and average amounts borrowed in the second quarter of 2009 as compared to the same period in 2008.

Income Taxes

The income tax provision was \$21.6 million in the second quarter of 2009 compared to \$33.1 million during the same period in 2008. The effective tax rate was 37.6% for the second quarter of 2009 as compared to 39.2% for the same period in 2008. Our effective rates differ from the statutory federal rate of 35% for certain items, such as state and local taxes, non-deductible expenses, foreign operating losses for which no tax benefits have been recognized and foreign taxes at rates other than 35%.

Discontinued Operations

Near the end of 2008, we announced plans to sell seven unprofitable service centers. We have reclassified losses related to these service centers in the second quarter of 2009 of \$0.6 million to discontinued operations. This compares with losses from these discontinued operations incurred in the second quarter of 2008 of \$0.3 million. We entered into agreements to sell all of these service centers during the first quarter of 2009. Also included in the loss from discontinued operations is a provision of \$6.2 million for an unfavorable judgment in litigation related to the sale of a service center in 2004 that was included in discontinued operations.

Table of Contents**Second Quarter 2009 Compared to Second Quarter 2008 Results by Segment***Residential Heating & Cooling*

The following table details our Residential Heating & Cooling segment's net sales and profit for the second quarters of 2009 and 2008 (dollars in millions):

	Second Quarter		Difference	% Change
	2009	2008		
Net sales	\$ 379.3	\$ 450.7	\$ (71.4)	(15.8)%
Profit	39.3	50.0	(10.7)	(21.4)
% of net sales	10.4%	11.1%		

The decrease in net sales was due to continuing weakness in the U.S. residential new construction market and softer replacement business as consumers remain cautious in the current economic environment. Unit volumes were lower across the industry. While net sales continued to decline from a year ago, the rate of decline decreased compared to the rate in the first quarter of 2009. Product mix continued to shift towards our premium products, driven in part by government incentives to consumers for energy efficient products. Volumes decreased net sales by nearly 18% in 2009 as compared to 2008. The decreases related to net sales was partially offset by pricing gains of approximately 3% related to increases that were enacted in the later quarters of 2008 and positive sales mix of about 1%. The unfavorable impact of changes in foreign currency exchange rates decreased net sales by approximately 2%.

Changes in net sales unfavorably impacted segment profit by \$9 million. In addition, product costs of \$9 million, including under-absorbed manufacturing costs, also adversely impacted segment profit. Offsetting these unfavorable impacts to segment profit was an incremental favorable adjustment to our warranty liabilities of \$4 million and SG&A cost reductions, including headcount savings, of \$5 million.

Commercial Heating & Cooling

The following table details our Commercial Heating & Cooling segment's net sales and profit for the second quarters of 2009 and 2008 (dollars in millions):

	Second Quarter		Difference	% Change
	2009	2008		
Net sales	\$ 162.7	\$ 229.5	\$ (66.8)	(29.1)%
Profit	19.3	26.7	(7.4)	(27.7)
% of net sales	11.9%	11.6%		

Our Commercial Heating & Cooling business experienced lower sales volume of 29%, primarily due to weak new construction in North America and overall weakness in European business. The unfavorable impact of changes in foreign currency exchange rates on net sales was approximately 4%. As an offset to these negative impacts to sales, we experienced pricing gains of about 1% from increases that were enacted during the later quarters of 2008 and positive sales mix of 4%.

Changes in net sales unfavorably impacted segment profit by \$11 million. In addition, product costs of \$3 million, including under-absorbed fixed manufacturing costs, also contributed to the decrease in segment profit. Offsetting these unfavorable impacts were SG&A cost reductions, including headcount savings, of \$5 million and a favorable warranty adjustment of \$2 million.

Service Experts

The following table details our Service Experts segment's net sales and profit for the second quarters of 2009 and 2008 (dollars in millions):

	Second Quarter		Difference	% Change
	2009	2008		
Net sales	\$ 153.7	\$ 179.6	\$ (25.9)	(14.4)%
Profit	8.7	14.3	(5.6)	(39.2)
% of net sales	5.7%	8.0%		

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The decrease in net sales was primarily due to the decline in the residential new construction and residential service and replacement markets resulting from the weakness of the U.S. economy. The sales decrease was primarily due to a volume decline of approximately 11% as both price and sales mix were relatively flat. The year-over-year rate of decline for replacements slowed as compared to the first quarter of 2009. The unfavorable impact of changes in foreign currency exchange rates decreased net sales by approximately 3%.

Changes in net sales unfavorably impacted segment profit by approximately \$8 million. The lower sales volumes were partially offset by SG&A cost reductions, including headcount savings of about \$2 million.

Refrigeration

The following table details our Refrigeration segment's net sales and profit for the second quarters of 2009 and 2008 (dollars in millions):

	Second Quarter		Difference	% Change
	2009	2008		
Net sales	\$ 122.1	\$ 169.1	\$ (47.0)	(27.8)%
Profit	9.6	17.5	(7.9)	(45.1)
% of net sales	7.9%	10.3%		

Net sales decreased due to lower sales volumes of 22% and the unfavorable impact of changes in foreign currency exchange rates of almost 9%. Net sales were down significantly in all international markets except China. Pricing gains of approximately 3% partially offset these negative impacts.

Changes in net sales unfavorably impacted segment profit by \$9 million. In addition, product costs of around \$3 million, including under-absorbed manufacturing costs, also adversely impacted segment profit. The lower sales volumes were partially offset by SG&A cost reductions, including headcount savings of approximately \$3 million.

Corporate and Other

Corporate and other expenses increased to \$14.7 million in the second quarter of 2009, up from \$8.7 million during the same period in 2008. Comparisons to the prior year were affected by a favorable adjustment for foreign currency exchange rates of approximately \$5 million that was recorded in the second quarter of 2008. Also contributing to the increase in the second quarter of 2009 were higher severance charges.

Year-to-Date Through June 30, 2009 Compared to Year-to-Date Through June 30, 2008 Consolidated Results*Net Sales*

Net sales decreased 22.0% for the first half of 2009 as compared to the same period in 2008. The decrease in net sales was due to unfavorable impacts of sales volumes of over 21% across all segments and was primarily driven by declines in the overall markets we serve. The declines in unit volumes were partially offset by pricing gains of 2% and positive sales mix of 2%. Changes in foreign currency exchange rates adversely impacted revenues by almost 5%.

Gross Profit

Gross profit margins remained constant at 26.7% in the first half of 2009 despite lower volumes from the first half of 2008. Pricing gains increased gross profit margins by approximately 150 basis points. Gross profit margins were also positively impacted by nearly 35 basis points for the net incremental effect of warranty adjustments. The changes in foreign currency exchange rates also had an approximate 20 basis point positive impact on our gross profit margins. Product costs, including under-absorbed manufacturing costs, decreased gross profit margins by approximately 150 basis points.

Table of Contents*Selling, General and Administrative Expenses*

SG&A expenses for the first half decreased by over \$48.3 million in 2009 as compared to the same period in 2008. As a percentage of total net sales, SG&A expenses were 23.5% for 2009 and 21.0% for 2008 primarily due to the decline in sales volumes. Selling and administrative expenses decreased generally due to cost reductions, including headcount savings, totaling approximately \$31 million, and the impact of foreign exchange rates of almost \$17 million. Research and development expenses remained constant as we continued to invest in future product offerings.

Gains and Other Expenses, Net

Gains and other expenses, net for the first half of 2009 and 2008 included the following (in millions):

	Six Months Ended June 30,	
	2009	2008
Realized losses (gains) on settled futures contracts	\$ 3.3	\$ (1.0)
Unrealized (gains) losses on unsettled futures contracts not designated as cash flow hedges	(5.2)	(2.3)
Foreign currency exchange losses (gains)	1.3	(4.8)
Other items, net	0.5	0.2
Gains and other expenses, net	\$ (0.1)	\$ (7.9)

The change in gains and losses on futures contracts was primarily due to decreases in commodity prices relative to the futures contract prices during 2009 as compared to 2008 for the contracts that settled during the period. Conversely, the change in unrealized (gains) losses related to unsettled futures contracts not designated as cash flow hedges was primarily due to higher commodity prices relative to the futures contract prices for those contracts. For more information, see Note 5 in the Notes to the Consolidated Financial Statements. The change in foreign currency losses (gains) was primarily due to a favorable catch-up adjustment of \$5.0 million related to foreign currency fluctuations on intercompany loans recorded in 2008. Additionally, we incurred foreign exchange transaction losses on intercompany transactions as the dollar weakened against certain foreign currencies.

Restructuring Charges

In the first two quarters of 2009 and 2008, we incurred restructuring charges consisting of:

	Six Months Ended June 30,	
	2009	2008
Manufacturing rationalizations	\$ 8.9	\$ 9.6
Reorganization of distribution network	0.3	
Reorganizations of corporate and business unit selling and administrative functions	6.7	0.9
Total	\$ 15.9	\$ 10.5

For further detail regarding restructuring reserves and individual restructuring actions, see Note 12 in the Notes to our Consolidated Financial Statements.

Manufacturing Rationalizations

The restructuring charges incurred in the first half of 2009 primarily related to the consolidation of Residential Heating & Cooling manufacturing operations from Blackville, South Carolina into our operations in Orangeburg, South Carolina and Saltillo, Mexico. These restructuring charges related to manufacturing rationalizations included \$2.8 million of severance and related charges, \$2.7 million of asset write-offs and accelerated depreciation, \$1.0 million of equipment move charges and \$2.4 million of other costs. The other costs were primarily related to the return of previously received government economic development credits, facilities clean-up and demolition costs, and manufacturing overhead costs in significantly under-utilized facilities as production activities wind down and transition to the new facility.

Table of Contents**Reorganization of North American Distribution Network**

In the first two quarters of 2009, we incurred \$0.3 million of equipment move costs related to the transition of activities currently performed at our North American Parts Center in Des Moines, Iowa to other locations, including our North American Distribution Center in Marshalltown, Iowa.

Reorganizations of Corporate and Business Unit Selling and Administrative Functions

The restructuring charges incurred in the first half of 2009 related to the reorganization of selling and administrative functions included \$5.5 million of severance and related charges, \$0.7 million of lease termination costs, \$0.1 million of asset write-offs and accelerated depreciation and \$0.4 million of other costs.

Cash Used in Restructuring Activities

Total cash paid for restructuring activities during the first half of 2009 was \$13.3 million, a decrease of \$3.1 million from the same period in 2008. A significant portion of this amount related to an increase in restructuring activities related to selling and administrative functions and was primarily composed of severance payments related to our various restructuring projects. We use operating cash as the funding source for restructuring activities.

Income from Equity Method Investments

Investments over which we do not exercise control but have significant influence are accounted for using the equity method of accounting. Income from equity method investments decreased to \$3.2 million in the first half of 2009 compared to \$6.0 million during the same period in 2008 primarily due to the weaker performance of our U.S. joint venture in compressor manufacturing, which experienced reduced sales as a result of a reduction in our volume of purchases.

Interest Expense, net

Interest expense, net decreased to \$3.6 million during the first half of 2009 from \$6.5 million during the same period in 2008. The decrease in interest expense was primarily attributable to a decrease in the average interest rate paid on variable rate debt and average amounts borrowed in 2009 as compared to the same period in 2008.

Income Taxes

The income tax provision was \$10.9 million in the first half of 2009 compared to \$37.0 million during the same period in 2008. The effective tax rate was 38.1% for the first half of 2009 as compared to 38.9% for the same period in 2008. Our effective rates differ from the statutory federal rate of 35% for certain items, such as state and local taxes, non-deductible expenses, foreign operating losses for which no tax benefits have been recognized and foreign taxes at rates other than 35%.

Discontinued Operations

Near the end of 2008, we announced plans to sell seven unprofitable service centers. As a result, we have reclassified losses related to these service centers in the first half of 2009 of \$0.4 million to discontinued operations. This compares with losses from these discontinued operations incurred in the first half of 2008 of \$1.1 million. Also included in the loss from discontinued operations were gains realized upon the sale of the service centers of \$1.0 million. The loss from discontinued operations also includes a provision of \$6.2 million for an unfavorable judgment in litigation related to the sale of a service center in 2004 that was included in discontinued operations.

Year-to-Date Through June 30, 2009 Compared to Year-to-Date Through June 30, 2008 Results by Segment**Residential Heating & Cooling**

The following table details our Residential Heating & Cooling segment's net sales and profit for the first half of 2009 and 2008 (dollars in millions):

	Six Months Ended		Difference	% Change
	June 30,			
	2009	2008		
Net sales	\$ 625.6	\$ 779.9	\$ (154.3)	(19.8)%
Profit	34.5	63.2	(28.7)	(45.4)
% of net sales	5.5%	8.1%		

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The decrease in net sales was due to continuing weakness in the U.S. residential new construction market and softer replacement business as consumers remain cautious in the current economic environment. Unit volumes were lower across the industry. While net sales continued to decline from a year ago, the rate of decline decreased from the first quarter of 2009. Product mix continued to shift towards our premium products, driven in part by government incentives to consumers for energy efficient products. Volumes decreased net sales by nearly 23% in 2009 as compared to 2008. The unfavorable impact of changes in foreign currency exchange rates also decreased net sales by just under 2%. The decreases related to net sales were partially offset by pricing gains of almost 3% related to increases that were enacted in the later quarters of 2008 and positive sales mix of 2%.

Changes in net sales unfavorably impacted segment profit by \$22 million. In addition, product costs of \$11 million, including under-absorbed manufacturing costs also adversely impacted segment profit. Offsetting these unfavorable impacts to segment profit was a net incremental favorable warranty adjustment of \$4 million and SG&A cost reductions, including headcount savings, of \$11 million.

Commercial Heating & Cooling

The following table details our Commercial Heating & Cooling segment's net sales and profit for the first half of 2009 and 2008 (dollars in millions):

	Six Months Ended		Difference	% Change
	June 30,			
	2009	2008		
Net sales	\$ 294.2	\$ 394.7	\$ (100.5)	(25.5)%
Profit	21.3	32.9	(11.6)	(35.3)
% of net sales	7.2%	8.3%		

Our Commercial Heating & Cooling business experienced lower sales volumes of 26%, primarily due to weak new construction in North America and overall weakness in European business. The unfavorable impact of changes in foreign currency exchange rates on net sales was approximately 5%. As an offset to these negative impacts to sales, we experienced pricing gains of about 1% from increases that were enacted during the later quarters of 2008 and positive sales mix of 4%.

Changes in net sales unfavorably impacted segment profit by \$18 million. In addition, product costs of \$3 million, including under-absorbed fixed manufacturing costs, also contributed to the decrease in segment profit. Offsetting these unfavorable impacts were SG&A cost reductions, including headcount savings, of \$10 million and a favorable warranty adjustment of \$2 million.

Service Experts

The following table details our Service Experts segment's net sales and profit for the first half of 2009 and 2008 (dollars in millions):

	Six Months Ended		Difference	% Change
	June 30,			
	2009	2008		
Net sales	\$ 262.9	\$ 317.1	\$ (54.2)	(17.1)%
Profit	0.7	7.4	(6.7)	(90.5)
% of net sales	0.3%	2.3%		

The decrease in net sales was primarily due to the decline in the residential new construction and residential service and replacement end markets resulting from the weakness of the U.S. economy. The sales decrease was primarily due to sales volumes of 14% as both price and sales mix were relatively flat. The unfavorable impact of changes in foreign currency exchange rates decreased net sales by 3%.

Changes in net sales unfavorably impacted segment profit by \$16 million. The lower sales volumes were partially offset by SG&A cost reductions, including headcount savings, of \$7 million.

Table of Contents*Refrigeration*

The following table details our Refrigeration segment's net sales and profit for the first half of 2009 and 2008 (dollars in millions):

	Six Months Ended		Difference	% Change
	June 30,			
	2009	2008		
Net sales	\$ 235.8	\$ 323.8	\$ (88.0)	(27.2)%
Profit	16.1	32.2	(16.1)	(50.0)
% of net sales	6.8%	9.9%		

Net sales decreased due to lower sales volumes of almost 20% and the unfavorable impact of changes in foreign currency exchange rates of about 11%. Pricing gains of approximately 3% partially offset these negative impacts. Changes in net sales unfavorably impacted segment profit by \$16 million. In addition, product costs of \$5 million, including under-absorbed manufacturing costs, also adversely impacted segment profit. The lower sales volumes were partially offset by SG&A cost reductions, including headcount savings, of \$6 million.

Corporate and Other

Corporate and other expenses increased to \$28.6 million in the first half of 2009, up from \$20.9 million during the same period in 2008. Comparisons to the prior year were affected by a favorable adjustment for foreign currency exchange rates of approximately \$5 million that was recorded in the second quarter of 2008.

Liquidity and Capital Resources

Our working capital and capital expenditure requirements are generally met through internally generated funds, our domestic revolving credit facility and our revolving period asset securitization arrangement. Working capital needs are generally greater in the first and second quarters due to the seasonal nature of our business cycle.

Statement of Cash Flows

The following table summarizes our cash activity for the six months ended June 30, 2009 and 2008 (in millions):

	2009	2008
Net cash provided by operating activities	\$ 82.7	\$ 23.6
Net cash used in investing activities	(20.6)	(29.2)
Net cash used in financing activities	(117.1)	(46.1)

Net Cash Provided by Operating Activities

The cash generation experienced during the first two quarters of 2009 in operating activities was primarily due to working capital improvements. The cash flow impact of changes in accounts receivable improved by \$53.1 million from a year ago as we continue to aggressively pursue cash collections from customers, and from a lower accounts receivable base due to lower revenues. The cash flow impact from changes in inventory improved \$64.7 million due to the continued focus on our investment in inventory and also due to lower production volumes. These favorable operating cash flow impacts were partially offset by changes in accounts payable of \$59.7 million due to lower inventory purchases than a year ago.

There were several other events that significantly impacted our cash flows from operations during the first two quarters of 2009. During the first two quarters of 2009, we received cash of \$37.4 million from collateral previously posted related to commodity hedge derivative losses that we incurred in the last half of 2008. No similar transaction occurred in the prior year period. We also increased the pace of our restructuring activities and the cash used related to these activities increased by \$8.6 million.

Table of Contents**Net Cash Used in Investing Activities**

Capital expenditures in the first two quarters of 2009 were \$21.6 million, which was relatively flat as compared with capital expenditures of \$22.5 million incurred in the first two quarters of 2008. Capital expenditures for the first two quarters of 2009 were principally driven by:

- Purchases of production equipment in our Residential Heating & Cooling and Commercial Heating & Cooling segments,
- Purchases of systems and software to support our regional distribution center initiative as well as the overall enterprise,
- Expenditures for plant consolidations, and
- Spending for our Saltillo, Mexico facility.

Net cash used in investing activities for the first two quarters of 2009 included net purchases of \$0.2 million for net short-term investments compared to \$7.1 million in the same period of 2008.

Net Cash Used in Financing Activities

Due to our strong working capital position, we repaid on a net basis, \$101.0 million of debt during the first two quarters of 2009. This compares to a net borrowing in the first two quarters of 2008 of \$261.8 million which was primarily used to repurchase \$307.0 million of our common stock. Also, both the proceeds from the exercise of stock options and the related tax benefits declined, in total \$21.6 million due to lower volumes of stock option exercises and as the result of lower common stock price. We paid a total of \$15.5 million in dividends on our common stock in the first two quarters of 2009 as compared to \$24.6 million in the same period of 2008. The primary reasons for the decrease in cash dividends paid is the reduction in outstanding shares due to the repurchase of common stock under our share repurchase program as well as the deferral of payment of the second quarter 2009 dividend until the third quarter of 2009 to even out the dividend payments throughout the calendar year.

Debt Position and Financial Leverage

Our debt-to-total capital ratio decreased to 39% as of June 30, 2009 from 48% as of December 31, 2008 due to lower outstanding debt and increased equity.

The following tables summarize our outstanding debt obligations and the classification in the accompanying Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008 (in millions):

Description of Obligation As of June 30, 2009	Short-Term Debt	Current Maturities	Long-Term Maturities	Total
Domestic promissory notes ⁽¹⁾	\$	\$ 35.0	\$	\$ 35.0
Domestic revolving credit facility			259.0	259.0
Capital lease obligations		0.1	17.6	17.7
Foreign obligations	7.5	0.2	0.3	8.0
Total Debt	\$ 7.5	\$ 35.3	\$ 276.9	\$ 319.7

Description of Obligation As of December 31, 2008	Short-Term Debt	Current Maturities	Long-Term Maturities	Total
Domestic promissory notes ⁽¹⁾	\$	\$	\$ 35.0	\$ 35.0
Domestic revolving credit facility			359.8	359.8
Capital lease obligations		0.3	18.6	18.9
Foreign obligations	6.1	0.3	0.3	6.7
Total Debt	\$ 6.1	\$ 0.6	\$ 413.7	\$ 420.4

(1)

Domestic
promissory
notes bear
interest at
8.00% and
mature in 2010.

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As of June 30, 2009, we had outstanding borrowings of \$259.0 million and \$107.3 million was committed to standby letters of credit under the \$650.0 million domestic revolving credit facility. All of the remaining \$283.7 million was available for future borrowing. The facility matures in October 2012.

The domestic revolving credit facility includes a subfacility for swingline loans of up to \$50 million and provides for the issuance of letters of credit for the full amount of the domestic revolving credit facility. Our weighted average borrowing rate on the domestic revolving credit facility was 1.14% and 2.26% as of June 30, 2009 and December 31, 2008, respectively.

The Third Amendment and Restated Revolving Credit Facility Agreement (the Credit Agreement) contains financial covenants relating to leverage and interest coverage. Other covenants contained in the Credit Agreement restrict, among other things, mergers, asset dispositions, guarantees, debt, liens, acquisitions, investments, affiliate transactions and our ability to make restricted payments. The financial covenants require us to maintain defined levels of Consolidated Indebtedness to Adjusted EBITDA Ratio and a Cash Flow (defined as EBITDA minus capital expenditures) to Net Interest Expense Ratio. The required ratios as of June 30, 2009 are detailed below:

Consolidated Indebtedness to Adjusted EBITDA Ratio no greater than	3.5 : 1.0
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Cash Flow to Net Interest Expense Ratio no less than	3.0 : 1.0
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The Credit Agreement contains customary events of default. These events of default include nonpayment of principal or interest, breach of covenants or other restrictions or requirements, default on any other indebtedness or receivables securitizations (cross default), or bankruptcy. A cross default could occur if:

- we fail to pay any principal or interest when due on any other indebtedness or receivables securitization of at least \$40 million; or
- we are in default on any other indebtedness or receivables securitization in an aggregate principal amount of at least \$40 million; and
- such default gives the holders the right to declare such indebtedness due and payable prior to its stated maturity.

If a cross default was to occur it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, lenders with a majority of the aggregate commitments may require the administrative agent to terminate our right to borrow under the Credit Agreement and accelerate amounts due under the Credit Agreement (except for a bankruptcy event of default, in which case, such amounts will automatically become due and payable and the lenders' commitments will automatically terminate).

The domestic promissory notes contain the same financial covenant restrictions as the Credit Agreement listed above. As of June 30, 2009, we were in compliance with all covenant requirements. Our domestic revolving credit facility and promissory notes are guaranteed by our material subsidiaries.

We have additional borrowing capacity through several foreign facilities governed by agreements between us and various banks. These borrowings are used primarily to finance seasonal borrowing needs of our foreign subsidiaries. Available capacity at June 30, 2009 and December 31, 2008 on foreign facilities were \$26.7 million and \$26.0 million, respectively.

Under our revolving period asset securitization arrangement (ASA), we are eligible to transfer beneficial interests in a portion of our trade accounts receivable to third parties in exchange for cash. Our continued involvement in the transferred assets is limited to servicing. These transfers are accounted for as sales rather than secured borrowings.

The fair values assigned to the retained and transferred interests are based primarily on the receivables carrying value given the short term to maturity and low credit risk. The ASA provides for a maximum securitization amount of \$125 million or 100% of the net pool balance as defined by the ASA. However, eligibility for securitization is limited based on the amount and quality of the accounts receivable and is calculated monthly. Subsequent to December 31, 2008, the amount eligible for securitization declined primarily due to lower sales and increased cash collections. The credit quality of those accounts receivable was not materially different from that at December 31, 2008. The beneficial interest sold cannot exceed the maximum amount even if our qualifying accounts receivable is greater than the

maximum amount at any point in time. The eligible amounts available were as follows (in millions):

	As of June 30, 2009	As of December 31, 2008
Eligible amount available under the ASA on qualified accounts receivable	\$ 115.6	\$ 91.0
Beneficial interest sold	(30.0)	(30.0)
Remaining amount available	\$ 85.6	\$ 61.0

As of June 30, 2009 and December 31, 2008, \$17.4 million and \$7.1 million, respectively of cash and cash equivalents were restricted primarily due to routine lockbox collections and letters of credit issued with respect to the operations of our captive insurance subsidiary, which expire on December 31, 2009, and will be renewed upon expiration. These letters of credit can be transferred to our revolving lines of credit as needed.

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We periodically review our capital structure, including our domestic revolving credit facility, to ensure that it has adequate liquidity. We believe that cash flows from operations, as well as available borrowings under our revolving credit facility and other existing sources of funding, will be sufficient to fund our operations for the foreseeable future and share repurchases during the term of the 2008 Share Repurchase Plan.

As a result of the declines in the securities markets as a whole, which primarily occurred in 2008, the fair value of pension plan assets has also declined. A continued decline in fair value of our pension plan assets could result in increased pension contributions.

Off-Balance Sheet Arrangements

In addition to the revolving and term loans described above, we utilize the following financing arrangements in the course of funding our operations:

Transfers of accounts receivable under the ASA are accounted for as sales rather than secured borrowings and are reported as a reduction of Accounts and Notes Receivable, Net in the Consolidated Balance Sheets. As of June 30, 2009 and December 31, 2008, we sold \$30.0 million in beneficial interests to third parties.

We also lease real estate and machinery and equipment pursuant to leases that, in accordance with generally accepted accounting principles, are not capitalized on the balance sheet, including high-turnover equipment such as autos and service vehicles and short-lived equipment such as personal computers.

Commitments, Contingencies and Guarantees

We are subject to contingencies that arise in the normal course of business, including product warranties and other product related contingencies, pending litigation, environmental matters and other guarantees or claims.

We use a combination of third-party insurance and self-insurance plans (large deductible or captive) to provide protection against claims relating to contingencies such as workers' compensation, general liability, product liability, property damage, aviation liability, directors' and officers' liability, auto liability, physical damage and other exposures. Of these exposures, we use self-insurance plans for workers' compensation/employers' liability, general liability, product liability, and auto liability. During the second quarter of 2009, these policies were written through a third-party insurance provider, which was then reinsured by our captive insurance subsidiary. Currently these policies are fronted by a commercial insurance company and we then pay the premium directly into our captive insurance company. We believe that the liability limits retained by the captive are customary for a company of our size and in our industry and are appropriate for our business.

In addition, we use third-party insurance plans for property damage, aviation liability, directors' and officers' liability, and other exposures. Each of these policies includes per occurrence limits. However, we also carry umbrella or excess liability insurance for all third-party and self-insurance plans, except for directors' and officers' liability. We believe the limit within our excess policy is adequate for companies of our size in our industry.

The self-insurance expense and liabilities are actuarially determined based on our historical claims information, as well as industry factors and trends and because we have a captive insurance company, we are required to maintain specified levels of liquid assets from which we must pay claims. The majority of our self-insured risks (excluding auto liability and physical damage) will be paid over an extended period of time. The self-insurance liabilities recorded in Accrued Expenses in the accompanying Consolidated Balance Sheets were \$66.7 million at June 30, 2009 and \$63.3 million as of December 31, 2008.

The estimate of our liability for future warranty costs requires us to make significant assumptions about the amount, timing and nature of the costs we will incur in the future. We review the assumptions used to determine the liability periodically and we adjust our assumptions based upon factors such as actual failure rates and cost experience. Numerous factors could affect actual failure rates and cost experience, including the amount and timing of new product introductions, changes in manufacturing techniques or locations, components or suppliers used. In recent years, changes in the warranty liability as the result of the issuance of new warranties and the payments made have remained relatively stable. Should actual warranty costs differ from our estimates, we may be required to record adjustments to accruals and expense in the future. At the end of each accounting period, we evaluate our warranty liabilities and during the second quarter of each year, we perform a complete reevaluation of our warranty liabilities.

As a result of our annual evaluation, we have recorded a reduction to the warranty liability that is the principal amount contained within changes in estimates associated with pre-existing liabilities of \$12.6 million. The reduction to our warranty liabilities was principally caused by lower than expected failure rates, reductions to future cost estimates, and new experience data.

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We incur the risk of liability claims for the installation and service of heating and air conditioning products and we maintain liabilities for those claims that we self-insure. We are involved in various claims and lawsuits related to our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims are not covered by our product liability insurance and certain product liability claims may also not be covered by our product liability insurance. There have been no material changes in the circumstances since our latest fiscal year-end.

We also may incur costs related to our products that may not be covered under our warranties and are not covered by insurance, and we may, from time to time, repair or replace installed products experiencing quality issues in order to satisfy our customers and to protect our brand. These product quality issues may be caused by vendor-supplied components that fail to meet required specifications. We have identified a product quality issue in a heating and cooling product line produced during a limited time period that we believe results from a vendor-supplied component that failed to meet required specifications. We have recorded a liability of \$4.2 million for the portion of the issue that is probable and can be reliably estimated based upon the current data available. We are working to determine the scope and nature of the issue. Any additional liability resulting from the product quality issue and any related recovery from the vendor cannot be reasonably estimated at this time.

We estimate the costs to settle pending litigation based on experience involving similar claims and specific facts known. We do not believe that any current or pending or threatened litigation will have a material adverse effect on our financial position. Litigation and arbitration, however, involve uncertainties and it is possible that the eventual outcome of litigation could adversely affect our results of operations for a particular period.

Applicable environmental laws can potentially impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some facilities; however, we do not presently believe that any future remediation costs at such facilities will be material to our results of operations. There have been no material changes to the reserve balances since our latest fiscal year-end.

On June 22, 2006, we entered into an agreement with a financial institution to lease our corporate headquarters in Richardson, Texas for a term of seven years (the "Lake Park Lease"). The leased property consists of an office building of approximately 192,000 square feet, land and related improvements. Our obligations under the Lake Park Lease are secured by a pledge of our interest in the leased property and are also guaranteed by us and certain of our subsidiaries. The Lake Park Lease, as amended, contains restrictive covenants that are consistent with those of our domestic revolving credit facility. We are in compliance with these financial covenants as of June 30, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Commodity Price Risk

We enter into commodity futures contracts to stabilize prices expected to be paid for raw materials and parts containing high copper and aluminum content. These contracts are for quantities equal to or less than quantities expected to be consumed in future production.

Fluctuations in metal commodity prices impact the value of the derivative instruments that we hold. When metal commodity prices rise, the fair value of our futures contracts increases and conversely, when commodity prices fall, the fair value of our futures contracts decreases. In the fourth quarter of 2008, metal prices fell significantly and as a result, we recorded derivative losses, net of tax, of \$1.8 million and \$21.3 million in AOCL as of June 30, 2009 and December 31, 2008, respectively. We believe that this decline in metal prices was an extraordinary event because of its size and its occurrence over a relatively short timeframe.

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Information about our exposure to market risks related to metal commodity prices and a sensitivity analysis related to our metal commodity hedges is presented below (in millions):

Notional amount (pounds)		17.8
Carrying amount and fair value of liability	\$	3.7
Change in fair value from 10% change in forward prices	\$	3.7

Interest Rate Risk

Our results of operations can be affected by changes in interest rates due to variable rates of interest on our revolving credit facilities, cash, cash equivalents and short-term investments. Based on our best estimates of projected cash flows and debt activity, a 100 basis point change in interest rates would impact our results of operations by approximately \$1.9 million annually.

In order to partially mitigate interest rate risk, we use a hedging strategy to eliminate the variability of cash flows in the interest payments for the first \$100 million of the total variable-rate debt outstanding under the Credit Agreement that is solely due to changes in the benchmark interest rate. This strategy allows us to fix a portion of our interest payments while also taking advantage of historically low interest rates.

On June 12, 2009, we entered into a \$100 million pay-fixed, receive-variable interest swap with a large financial institution at a fixed interest rate of 2.66%. The variable portion of the interest rate swap is tied to 1-Month LIBOR (the benchmark interest rate). The interest rates under both the interest rate swap and the underlying debt are reset, the swap is settled with the counterparty, and interest is paid, on a monthly basis. The interest rate swap expires October 12, 2012. We account for the interest rate swap as a cash flow hedge.

Information about our exposure to interest rate risk and a sensitivity analysis related to our interest rate swap is presented below (in millions):

Notional amount	\$	100.0
Impact of a 100 basis point change in the benchmark interest rate:		
Carrying amount and fair value of asset	\$	1.3
Interest expense	\$	1.0

Foreign Currency Exchange Rate Risk

Our results of operations can be affected by changes in exchange rates. Net sales and expenses in foreign currencies are translated into U.S. dollars for financial reporting purposes based on the average exchange rate for the period. Net sales from outside the United States represented 25.2% and 28.9% of total net sales for the quarters ended June 30, 2009 and 2008, respectively. Historically, foreign currency translation gains (losses) have not had a material effect on our overall operations. As of June 30, 2009, the impact to segment (loss) profit of a 10% change in foreign currency exchange rates is estimated to be approximately \$0.6 million on an annual basis.

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Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (Exchange Act), we carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Interim Chief Financial Officer (our principal executive officer and principal financial officer, respectively), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, the Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of June 30, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit to the Exchange Act is recorded, processed, summarized and reported to be disclosed within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to management, including our Chief Executive Officer and Interim Chief Financial Officer to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

There have been no significant changes concerning our legal proceedings since December 31, 2008. See Note 7 in the Notes to the Consolidated Financial Statements set forth in Part I, Item 1, of this Quarterly Report on Form 10-Q for additional discussion regarding legal proceedings.

Item 1A. Risk Factors.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management's assumptions and beliefs. All statements, other than statements of historical fact, included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements identified by the words may, will, should, plan, predict, anticipate, believe, and expect and similar expressions. Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to (1) projections of revenues, cost of raw materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, the effect of currency translations, capital structure, and other financial items, (2) statements of our plans and objectives or estimates or predictions of actions by customers, suppliers, competitors or regulating authorities, (3) statements of future economic performance and (4) statements of assumptions, such as the prevailing weather conditions in our market areas, underlying other statements and statements about us or our business.

Such statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties that may affect our performance and results of operations, including, but not limited to:

- economic risks due to global general business, economic and market conditions, including the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries;
- our ability to obtain new debt or equity financing on acceptable terms or at all, or to access amounts currently available under our domestic revolving credit facility or revolving period asset securitization agreement;
- the conditions of the U.S. construction industry;
- the effect of cooler than normal summers and warmer than normal winters on our sales;
- the effects of price increases or significant supply interruptions on our results of operations;
- costs incurred as a result of warranty and product liability claims and the effect of such costs on our results of operations;
- our ability to compete favorably in the highly competitive HVACR business;
- our ability to effect successful actions to reduce costs and expenses;
- our ability to successfully develop and market new products;
- our ability to successfully integrate and operate businesses that we may acquire;
- our ability to address the effect of any production interruptions or labor stoppages;
- our ability to successfully manage regulatory, tax and legal matters (including product liability, labor relations and environmental matters);

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risks from operating internationally, including risks associated with foreign currency fluctuations and changes in local government regulation; the effect of any future determination that a significant impairment of the value of our goodwill intangible asset has occurred on our results of operations; and the specific uncertainties discussed elsewhere in this Quarterly Report on Form 10-Q, the risk factors set forth in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, and those set forth in Part II, Item 1A. Risk Factors of this report, if any.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On June 2, 2008, we announced that our Board of Directors approved a new share repurchase plan for \$300 million, pursuant to which we are authorized to repurchase shares of our common stock through open market purchases (the 2008 Share Repurchase Plan). The 2008 Share Repurchase Plan has no stated expiration date. In the second quarter of 2009, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased⁽¹⁾	Average Price Paid per Share (including fees)	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (in millions)
April 1 through April 30	2,228	\$ 26.83		\$ 285.3
May 1 through May 31	328	\$ 32.33		\$ 285.3
June 1 through June 30	1,012	\$ 33.62		\$ 285.3
	3,568	\$ 29.26		

(1) Since there were no repurchases under the 2008 Share Repurchase Plan in the second quarter of 2009, this column reflects the surrender to LII of 3,568 shares of common stock to satisfy

tax-withholding obligations in connection with the vesting of restricted stock and performance share units.

Item 4. Submission of Matters to a Vote of Security Holders.

Our 2009 Annual Meeting of Stockholders (Annual Meeting) was held on May 21, 2009. At the Annual Meeting, our stockholders (i) elected four directors with terms expiring at our 2012 Annual Meeting of Stockholders and (ii) approved our proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year. Stockholders representing 51,168,241 shares of our common stock were present, in person or represented by proxy, at the Annual Meeting.

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The voting results at the Annual Meeting for the election of directors were as follows:

Directors	For	Withheld
Linda G. Alvarado	49,007,786	2,160,455
Steven R. Booth	50,731,276	436,965
John E. Major	50,319,713	848,528
Jeffrey D. Storey, M.D.	50,710,099	458,142

Following the Annual Meeting, Todd M. Bluedorn, Janet K. Cooper, C.L. (Jerry) Henry, Terry D. Stinson, and Richard L. Thompson, having terms expiring in 2010, and James J. Byrne, John W. Norris, III, Paul W. Schmidt, having terms expiring in 2011, continued in office.

The voting results at the Annual Meeting for the proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year were as follows:

	Shares
For:	50,914,669
Against:	233,700
Abstain:	19,872

Item 6. Exhibits.

- 10.1 Third Amended and Restated Credit Agreement, dated October 12, 2007 (including Exhibits and Schedules), among LII, Bank of America, N.A., as administrative agent, swingline lender and issuing bank, JPMorgan Chase Bank, N.A. and Wachovia Bank, National Association, as co-syndication agents, and the Lenders party thereto (filed herewith).
- 31.1 Certification of the principal executive officer (filed herewith).
- 31.2 Certification of the principal financial officer (filed herewith).
- 32.1 Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (filed herewith).

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LENNOX INTERNATIONAL INC.

Date: July 30, 2009

/s/ Roy A. Rumbough, Jr.
Roy A. Rumbough, Jr.
Interim Chief Financial Officer
(on behalf of registrant and as principal financial officer)

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- 31.1 Certification of the principal executive officer (filed herewith).
- 31.2 Certification of the principal financial officer (filed herewith).
- 32.1 Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (filed herewith).